Navigating the opportunities of the Middle East and Africa

Many multinational corporations have not realised the full potential of the Middle East and Africa, a dynamic region that is riding on a number of mega trends. Two senior bankers at Citi explain the challenges and opportunities for corporates in the region, what they need to know from a treasury perspective, and why they need a bank that brings the familiar to an unfamiliar environment.

Esther Chibesa

Co-Head of Treasury and Trade Solutions (TTS), Middle East and Africa

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Nneka Enwereji

Global Network Banking Co-Head of Middle East and Africa

citi

The Middle East and Africa heralds many opportunities for multinationals, and for those that haven't entered the region yet, there are dozens of questions they should ask. The first, says Nneka Enwereji, Global Network Banking Co-Head of Middle East and Africa at Citi, is, "Why not Middle East and Africa?!" She gives some of the reasons why now is a good time to look to the region: it is dynamic, has a young population, a rising middle class and a growing consumer base. Also, a rapid acceleration in digital technology and e-commerce have seen opportunities flourish, and an educated and skilled population embrace innovation.

Africa has the youngest population in the world. According to figures from the United Nations (UN), 70% of the population of Sub-Saharan Africa is under 30 years old[1]. This creates an energy and dynamism unmatched in other regions and is also an opportunity for corporates seeking new markets for their production, operations, or sales. There are particular opportunities for fast-moving goods companies, notes Enwereji, as well as agriculture, and the telecoms and industrials sectors.

Doing business with a positive impact

Corporates have been attracted to the region for its natural resources. Africa, for example, holds a third of global mineral reserves, 12% of oil and 8% of gas, according to UN figures[2]. And now, says Enwereji, "The increasing shift to clean energy technology has boosted demand for key minerals." This also comes at a time when corporates are increasingly focusing on being environmentally sustainable, and ensuring their business has a positive impact.

The focus on the mining and metals industry, in particular, has environment, social and governance (ESG) implications, and it is important for such companies to make strategic investments that have a beneficial social impact, says Enwereji. "This is where banks can play the role of advisors to help multinational corporations navigate these challenges," she says.

In practice, this could mean that the bank works closely with its partners to understand how it finances trade and working capital and ensure that it is done in a responsible way. Because the region is rich in commodities, the bank takes special care to ensure that the right questions are being asked – and answered – about sustainability and the ESG impact.

Finding the familiar in the unfamiliar

For companies based in North America or Europe, this region may be unfamiliar, but there is much potential that needs to be discovered. In navigating the challenges, it is important to have the right banking partner – one that knows the corporate's business in its home markets – and can be the guide on the ground to navigate the complexities of each of the local markets.

While there are many languages, cultures, rules and regulations to navigate, the region is becoming more connected, which

[1] https://www.un.org/ohrlls/news/young-people%E2%80%99s-potential-key-africa%E2%80%99s-sustainable-development

[2] https://www.unep.org/regions/africa/our-work-africa

makes it easier for multinationals to do business in multiple markets. The introduction of the African Continental Free Trade Area (AfCFTA), for example, harmonises many of the rules and trade tariffs, and removes some of the hurdles to doing cross-border trade.

There are, however, challenges that remain – such as dealing with different financial infrastructures, the high cost of capital and various government restrictions. Meanwhile, there are geopolitical challenges in markets like Lebanon, Egypt and Turkey, which require nimble treasury policies in terms of managing currency exposure and the repatriation of funds, for example.

Not only does a regional corporate treasurer have to understand the differences of the various markets, they also need to stay on top of the changing nature of the regulations – hence the need for a banking partner they can trust.

"We help clients reduce potential risk," says Enwereji. Apart from risk mitigation, treasurers are looking to centralise their treasury operations, improve consistency and visibility – and they are increasingly expecting to do this in real-time. Many corporates in the region are opting to establish shared service centres, for example, to manage multiple countries. And, combined with innovative solutions, the treasurers are able to use a platform that is very robust and familiar – CitiDirect® – in markets that are new to them.

Simplifying and giving visibility at a regional level

As companies expand in the region, their treasury arrangements can soon become unwieldy, with multiple relationships to manage. In these situations, many need a global bank to simplify and give increased visibility to their treasuries. For example, Vivo Energy Ltd a pan-African retailer, which distributes fuels and lubricants via service stations and directly to commercial customers, was needing to streamline and centralise its payroll and supplier payments processes from its regional head office in Morocco across 24 countries where it had a presence. Prior to this, the treasury team was dealing with different banks, all with different platforms, which was both cumbersome and inefficient. With Citi, they were able to use a single bank across these markets, through its Multi-Bank Transaction Initiation solution. The company could continue to work with its local banks and was able to view all the third-party bank balances and centralise payroll and supplier payments from a single platform.

Creating the right kind of networks

Another advantage of working with a bank that has an international footprint is that it can align its relationship coverage model with the clients' treasury structure. As a corporate expands in the region, a bank like Citi can mirror how the company's teams are organised, deploying its relationship bankers across similar hubs and locations.

In supporting such clients' needs, Esther Chibesa, Co-Head of Treasury and Trade Solutions (TTS), Middle East and Africa, Citi, comments how the bank plays to its strengths and has also learned to adapt to the needs of the clients. "Citi's traditional strength is in trade and working capital solutions, and in a dynamic environment like the Middle East and Africa, we have to think innovatively." Part of embracing the opportunities and doing this, she explains, is by forming a network with other financial institutions. This includes creating and selling on assets to keep liquidity in the market and allowing clients to mitigate their exposures on various trade flows in the region.

The bank is networked and connected to many parties in the region. Take for example, a multinational corporation where the regional treasurer is sitting in Dubai and is operating a business in South Africa that sells into Senegal. That company may have letters of credit issued by the client's bank in Senegal, which have been negotiated, confirmed, and supported by a back office in India. "This is all done through a digital platform – this is the power of Citi facilitating international trade," says Chibesa.

When it comes to capital controls, multinationals have particular challenges and they need support in managing this, explains Chibesa. As well as continuing with traditional trade instruments such as letters of credit, Citi's TTS team has a close relationship with the Markets business to create solutions for clients, such as swaps.

Part of Citi's work in the region involves maintaining close relationships with regulators to understand the implications of the various changing regulations. There is a lot for companies to navigate, such as the changing rules on intra-company lending in West and Central Africa, and what companies need to do to manage this effectively.

Working through challenges with a banking partner

A common challenge for corporates operating in Africa is trapped liquidity, due to foreign exchange scarcity and monetary policy actions to conserve currency reserves. Also, companies are looking for solutions to optimise returns on their trapped liquidity and solutions to improve working capital. Other challenges include high usage of cash in the region, to which corporates are looking for digital alternatives. Enwereji explains that Citi can assist by proffering the most appropriate liquidity management and digital collection solutions. "Balancing access to cash and optimising returns on liquidity keep treasurers up at night," says Enwereji. "Technology companies and other digital natives run a lean structure that allow expansion of services into countries without having an in-country presence. In such situations, Citi's local market knowledge helps these companies navigate an often-complex regulatory environment while also offering innovative solutions such as multi-banking solutions and automated cash pooling structures to support these multinationals' operating models."

These are just some of the challenges that corporate treasurers face as they embrace the opportunities the region's dynamism offers. In navigating the complexities, it is crucial that they do this with the right banking partner – one they can trust and bring solutions and service to an unfamiliar environment. ■