

African Footprint

Technical Newsletter of the Crowe Horwath International African firms

Inside This Issue

A New HR Advisory Practice	2
Corporate Foreign Policy	3
FRS102 - Sunshine for SMEs in the wake of Brexit	4
Creation of the Crowe Horwath African Francophone Group	5
Bank of Algeria Approach to Foreign Exchange Risks	6

A New HR Advisory Practice

Crowe Horwath DNA (Pty) Ltd proudly opened its doors on 1 September 2017. Dale Holloway, together with Rowan Marais, MD of Crowe Horwath RMA (Pty) Ltd, identified the need and opportunity to offer the Crowe Horwath client base an organizational HR advisory practice that aligned and integrated with the traditional accounting, audit and tax offering. Their joint offices are based in Somerset West, situated within the beautiful Winelands of South Africa.

Dale's extensive HR experience and corporate and commercial background gained over 25 years within the Financial and Banking sector across Africa paved the way for establishing the building blocks which ultimately lead to the creation of Crowe Horwath DNA (Pty) Ltd. The team was significantly strengthened when Nicole Badenhorst, a registered Industrial and Organizational Psychologist with 8 years consulting experience, joined as a founding partner and hence Crowe Horwath DNA (Pty) Ltd was formed.

They have developed an operating model and value proposition that delivers HR advisory service and products through key pillars. Briefly stated, these pillars focus on offering clients a fully outsourced end to end and turn-key HR Management delivery function; Labour Law advice and support; Organisational Developmental design work; Change Management consulting; Capability and project management consulting and a fully operational psychometric assessment centre that services both corporate business and educational academic institutions.

The aim and purpose is to deliver a professional and strategic HR advisory offering that supports all Crowe Horwath clients and their leadership teams across the African continent. Their focus is to work with and enable SME, Commercial, Corporate, NPO's and Public Sector businesses who are growing, expanding, diversifying, merging or right-sizing their companies as they respond to the strategic and competitor challenges within the markets they serve.

Business is about people and relationships. At the heart of this lies the "DNA" of every business culture and value system. As John Maxwell states *"everything rises and falls on leadership"*. The Crowe Horwath DNA team would welcome the opportunity to support all member firms and their clients who need to develop, enhance and address their organizational HR strategies, policies and people management programmes. Together with their wide network of associates and affiliates they are able to become a key business partner with you and your clients.

Don't hesitate to contact us on our email addresses dale.holloway@crowehorwath.co.za or nicole.badenhorst@crowehorwath.co.za

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Nicole Badenhorst





Corporate Foreign Policy

The privatization of Foreign Policy is fast becoming a crucial part of business and Crowe Horwath RMA in the Winelands, South Africa brings this important tool to business in Africa.

Corporate Foreign Policy allows companies operating in Africa to establish permanent geo-political risk due diligence and to use it effectively in the development of Corporate Diplomacy which requires highly skilled individuals versed in the art of relational capital. Africa requires skillful management of relationships and at Crowe Horwath RMA we have specialist expertise and experience to assist in the development of Corporate Foreign Policy as well as the identification and training of staff with potential skills in Corporate Diplomacy.

Crowe Horwath RMA offers market entry services, risk consulting, management advisory, product identification, transnational facilitation, and corporate governance services. Crowe Horwath RMA also acts on behalf of clients in the identification of the best possible solutions for their business needs. Crowe Horwath RMA caters to all businesses, government sectors and international organizations.

Crowe Horwath RMA specializes in Corporate Foreign Policy including Geo-Political Risk Due Diligence and Corporate Diplomacy, understanding the underlying dynamics.

A study done by the Bank of England in 2016 found that company executives from all over the world placed geo-political risk at the top of their list of biggest concerns, outdoing economic downturn, cyber-attacks and economic disruption. This is a clear indication that changing international dynamics in the field of political risk is becoming of great concern.

Harvard Business Review concluded in an article on the Bank of England findings that the company of the future will invest heavily in strengthening their capacity to engage diplomatically in existing business environments and in possible future markets. A critical factor in the business foreign policy domain will be geo-political risk due diligence serving as foundation for a strong Corporate Foreign Policy.

Navigating the new World Order need not be a fearful experience. The changing international order means that, for the foreseeable future, companies will continue to be exposed to substantial political risks.

There are many cases which underscore the importance of carefully vetting the political exposure of one's foreign partners, and proves that companies that fail to include such procedures in the due diligence process do so at their own peril.

Rowan Marais / George Rautenbach
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FRS 102 - Sunshine for SMEs in the wake of Brexit



Zayd Maniar

It would not be appropriate to correlate the implication of an important standard such as the FRS 102, with a political event. However, one thing for sure, is that SMEs (Small Medium Businesses) need to be prepared to face greater compliance and regulation, when dealing with businesses abroad, in the wake of Brexit. And with FRS 102, a single coherent reporting standard replacing old UK GAAP, this is one of the many initiatives by the Financial Reporting Council which I am confident will help small and micro businesses to grow.

The new standard based on IFRS, allows entities to deal with technical matters such as business combinations and investment properties, in a simple way and helps entities comply with the Companies Act. There are also, in certain circumstances, exemptions from disclosures which will reduce the compliance burden and help businesses focus on developing their business.

Similarly, the United Arab Emirates is working on initiatives that support and help SMEs grow their business, create employment and contribute to economic growth. A prime example of this initiative is the timely updated, Federal Law No. 2 of 2015 on Commercial Companies. Article 27.3 requires Companies to “*apply International Accounting Standards and Practices upon preparing its periodic and annual accounts, to give a clear and accurate view of the profits and losses of the company*”.

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Creation of the Crowe Horwath African Francophone Group



Nouredine Ben Arbia

The partners of more than 20 firms members of Crowe Horwath International from 11 different countries namely England, France, Libya, Tunisia, Mauritania, Morocco, Algeria, Cameroon, Senegal, Côte d'Ivoire and Mali met in Tunis on 12 and 13 October to celebrate the creation of a Francophone Crowe Horwath sub-group and Zahaf & Associés' membership of the Crowe Horwath network. They now operate under the same brand with the firm of Ben Arbia (Horwath ACF).

A press conference was held Thursday, October 19 to explain the purpose of this partnership and announce the creation of the new group of Crowe Horwath Africa French-speaking.

In fact, the partnership of the two firms Zahaf and Ben Arbia aims to launch an international expansion strategy and strengthen Tunisia's position as a hub for the Africa Francophone zone, to provide clients with the quality of services they offer, a powerful and integrated international network and especially to support Tunisian companies that want to invest abroad and especially in Africa.

Mr Nouredine Ben Arbia will act as coordinator of the new group of Crowe Horwath Africa French-speaking until the next meeting, which will decide on the structure of its management. Its mission is to ensure the continuity of communications within the members of the group for the realization of the decisions taken, the collection of the proposals and the preparation for the next meeting to be held on the sidelines of the Africa and the Middle East meeting on February 2018 in Dubai.

A Memorandum of Understanding for a privileged partnership was signed with the Tunisian African Business Council (TABC), allowing TABC members to benefit from the reception, monitoring and support services of Crowe Horwath members, to facilitate the carrying out of business in the countries of these members.

Nouredine Ben Arbia
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Bank of Algeria Approach for Foreign Exchange Risks

The Bank of Algeria has just adopted a new regulation on the interbank foreign exchange market and foreign exchange hedging instruments. The new provisions give companies and banks the possibility to face the fluctuations of the Algerian dinar against foreign currencies. For companies, the introduction of these new market mechanisms is likely to improve the security of their international transactions by contributing to the creation of conditions for a more dynamic management of exchange rate risk.

Fluctuations in exchange rates over time are determined by the monetary system chosen by each country. The IMF classification lists eight exchange rate regimes, but they can be categorized into three main categories: fixed exchange rates, floating or variable exchange rates, and intermediate or mixed exchange rates.

Algeria experienced an almost fixed exchange rate regime until the late 1980s. This system, determined independently of the domestic economic fundamentals, has led to a strong overvaluation of the national currency, which has contributed to the formation of the informal currency market. The oil shock of 1986 led to its abandonment in favor of a more flexible monetary regulation mechanism. Algeria therefore opted for an intermediate exchange rate regime. In this system, the Bank of Algeria allows the market to play a relatively limited role and intervenes by using foreign exchange reserves to orient the external value of the dinar in line with monetary policy objectives, and changes in economic conditions. It should also be noted that the Algerian dinar is only partially convertible, valid only for international commercial transactions; capital mobility is strictly forbidden.

Since the entry into force of the new foreign exchange system in the early 1990s, Algerian companies are facing a currency exchange risk that manifests itself in international trade. Thus, if at the date of the transaction settlement, the dinar has appreciated, the effective amount paid by the importer decreases, causing a foreign exchange loss for the Bank that served as an intermediary with the foreign partner. In the case of depreciation, it's the opposite that will happen.

The multiple devaluations that occurred since the late 1980s have led to the bankruptcy of many companies. In the face of these uncertainties, it became urgent to provide the economic and financial entities with new instruments for managing foreign exchange risk. The new measures of the Bank of Algeria offer economic operators the opportunity to make use of hedging techniques and therefore have greater visibility. The main hedging instruments permitted by the new regulations are:

Hedging in foreign exchange or spot markets:

An importer wishing to hedge against fluctuations in the price of money concludes a contract with his banker by buying the foreign currencies corresponding to the amount of the settlement which must take place at a later date. The price chosen is the one displayed on the day of the conclusion of the contract. The bank is required to deliver the currency to the importer within 48 hours of the value date. But in spite of this advantage, the use of this type of operation renders the credit granted by the supplier null and entails a cash freezing of the company.

The hedging of the foreign exchange forward markets:

The main objective of this technique is the hedging of commercial transactions against currency risk. On the futures market, the commitments for foreign currency purchase and sale are made at a forward exchange rate (fixed exchange rate) determined upon the conclusion of a firm and final contract and the currencies purchased (importer) or sold (exporter) and their counterparts in dinars deliverable at maturity. Unlike the spot market, hedging on the futures market does not involve cash capitalization because the delivery of dinars against currencies is made at maturity and thus ensures the benefit of the supplier credit. Since the forward exchange rate is set beforehand, companies are able to predetermine the prices of the products, which saves them a serious problem of uncertainty.

The currency options markets:

A foreign exchange option represents the right but not an obligation to buy (call option) or the right to sell (put option) against dinar a defined amount of currency in the future at a price, fixed from the origin, called exercise price. The option is called "European" because it cannot be exercised at maturity, whereas the so-called "American" option can be exercised at any time during its period of existence. The advantage of a currency option on a hedge by a forward foreign exchange transaction, is that it guarantees its buyer or seller a price established at the beginning of the maturity, while being able to benefit from future price movements. If at the end of the term, the dinar's current exchange rate for a particular currency is more favorable, the importer or exporter abandons the option and buys or sells the currency at the current rate. Otherwise, he requires the execution of the option.

By authorizing these hedging mechanisms, the Bank of Algeria allows banks to hold foreign exchange reserves and set up foreign exchange positions. They will be required to make loans and borrowings on foreign exchange and money markets, either to set forward prices to their clients, or to realize gains through arbitrage transactions. In Algeria, these practices represent financial innovations that will significantly modify the activity of the banks, especially abroad.

The introduction of such reforms, unusual for the country, suggests that the public authorities are about to proceed to a new series of devaluations of the dinar. Given the country's external financial situation, this possibility appears to be more than likely. Indeed, since the fall in oil prices in 2014, the country's only source of foreign exchange, Algeria has recorded unprecedented trade deficits: - 3.07, - 21.79 and -16.69 billion U.S. dollars in 2014, 2015 and 2016, respectively. The balance of payments figures are even more alarming: - 9.64, - 30.96 and - 26.59 billion for the same period.

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Feedback from our Readers!

Should you wish a specific topic to be covered in our next issue, please let us know by emailing your request to our editor
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About Us

Our African network of firms serve clients worldwide as independent members of Crowe Horwath International.

Crowe Horwath International is ranked eighth largest global accounting network with over 200 independent accounting and advisory services firms in close to 130 countries around the world. Crowe Horwath International's member firms are committed to impeccable quality service, highly integrated service delivery processes and a common set of core values that guide decisions daily. Each firm is well established as a leader in its national business community and is staffed by nationals, thereby providing a knowledge of local laws and customs which is important to clients undertaking new ventures or expanding into other countries. Crowe Horwath International member firms are known for their personal service to privately and publicly held businesses in all sectors and have built an international reputation in the areas of audit, tax and advisory services.