2016 will prove to be a watershed for many of Africa's banks as their growth disappears along with many of the normal sources of dollar earnings.

For hard commodity-exporting countries that have little export diversification and very little domestic production capacity to reduce the import bill, the receding tide of commodity earnings will reveal how naked their economies are. Economists who wrote about the reduced dependency on oil may need to eat their imported hats. Nigeria may have diversified (on a production view of GDP), but oil-related revenue accounts for 80% of government revenue. An economy that faces almost a 50% reduction in export earnings and fiscal capacity cannot grow, as the IMF seems to think, at 4%.

Southern Africa faces a double shock due to a drought that will turn soft-commodity earnings into
significant soft-commodity imports. Almost all of the African economies outside of East Africa will face a combination of severe import compression, sharply lower growth, higher inflation (from falling
currencies and rising food prices), higher government borrowing and higher interest rates (in response to both these factors). Higher inflation and a weaker currency will put pressure on salaries and capital expenditures that may need to be delayed, which will further weaken consumption and capital spending.

The impact on banks

Weaker growth and currency volatility will impact on credit provisions as many firms (and banks) are revealed to have been running currency mismatches, and as governments' difficulties spill over into the accumulation of arrears to suppliers.

Rising inflation and interest rates will severely reduce the supply and demand for credit to the private sector. This will shorten the average duration of the lending book, while at the same time increase the return on a low-cost liability base.

There will be a scramble for dollars, especially in those countries in which the central bank unwisely tries to manage the process through rationing. In most countries the international banks have a very large share of hard-currency deposits and they will gain market share at the expense of local banks, unless uncertainty over their provenance alienates their once loyal customer base.

What can banks do?

In these environments bank managers need to plan differently:

- Scrap growth projections that rely on steady expansion in the balance sheet. Bank balance-sheet growth in these circumstances will generally be lower than nominal GDP growth and will come from gains in market share, not real expansions in the market.
- Recognise that now is the time to shore up and sort out the 'liability franchise' and all the costs that go with it. As part of this, banks need to think even harder about cost-allocation models, that poorly developed, can result in cuts in the wrong places.
- Improve their understanding of the linkages between credit exposures and affected sectors of the economy and improve their coverage and collections capabilities, particularly when it comes to government arrears.
- Reduce plans for consumer credit - healthy consumers don't borrow when rates head north of 25%.
- Maximise their usage of development assistance to secure dollar funding and continued investments in key projects.
- Aim for smart cost-cutting that reflects changes in the channel and operating environment. For those banks that have upgraded their core banking systems, now is the time to streamline processes to leverage these investments, while reducing costs at the same time.

A good crisis?

Managers who talk of having a good crisis clearly do not speak to customers who have lost their jobs or their businesses. Whereas banks in Africa have historically responded to environments with high inflation and limited lending opportunities by focusing on their liabilities strategies and expanding their branch environments, this crisis will mean that few banks will want to spend more on branch infrastructure.

There is also the vexing question as to the role of branches in an increasingly digital world. Despite all the mobile and related innovation, banks that have continued to expand the networks have until now continued to gain market share. Part of the solution is to focus on a highly visible agency banking strategy as a lower-cost alternative to importing ATMs or handling cash in branches.

Banks also need to work harder with government and donor programmes to provide the payment platforms that enable businesses and consumers to transaction electronically at lower cost so that funds remain within the banking sector and do not end up in the high-cost cash economy. Some countries such as Nigeria have already made good progress while others such as Ghana are catching up.

Few banks on the continent come close to providing their increasingly smart-phone-carrying customers with the locally relevant omni-channel strategy they seek, and have generally invested much less in their customer behaviour-change strategies than they invested in building their alternative channels.

How Genesis is helping

Genesis has been working across the continent during this turbulent time. Last year we consulted with 15 financial sector participants across 20 African countries. Our experience has shown that with the right focus and insights many of the current challenges can become opportunities (look how the rankings of the top five banks have changed in most markets in the past five years).

Genesis will continue to work with banks across the continent to align balance sheet and ALCO modelling linked to macro scenarios – see our new partnership with Parker Fitzgerald. Our work on cost allocation and minimisation will be further developed, as is the work we do on payment-system development and pricing. We are already engaged with clients on channel-optimisation and customer-migration strategies.

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