PETER MATZA REPORTS ON THE DEALS OF THE YEAR AWARDS DINNER AND THE SPEECH BY MS LUBNA QASSIM, DIRECTOR OF THE NEWLY ESTABLISHED DEPARTMENT OF ECONOMIC LEGISLATION IN THE UAE MINISTRY OF ECONOMY.

Driving change in the Middle East

The continued strong growth of the ACT Middle East (ACTME) was evidenced at the third Deals of the Year Awards Dinner, held at the Shangri-La Hotel in Dubai, and the second Annual Conference. The conference was held at the Jumeirah Emirates Towers, Dubai, where more than 250 delegates gathered to debate and discuss contemporary treasury and financial management in the Middle East.

The Awards Dinner was a great success, in particular for the Omani companies that swept the board in the bond, loan and corporate finance categories (see MET November 2011).

The evening was also notable for an excellent speech by Ms Lubna Qassim, who was appointed recently as director of the newly established Department of Economic Legislation in the UAE Ministry of Economy. In her role she advises on UAE legal and public sector reform, as well as economic legislation.

She has worked on comprehensive legislative reforms and advised both the local and federal UAE government on legislation such as the Foreign Investment Law, Companies Law, Labour Law and Competition Law.

Ms Qassim spoke eloquently and persuasively on the benefits of professional education and the value of bodies such as the ACTME driving change in the management of GCC economies and governments.

More than 250 delegates came together to enjoy the ACT Middle East Deals of the Year Awards dinner at Dubai's Shangri-La Hotel last November

Octal Petrochemicals group treasurer Gary Slawther (left) receives the ACTME Loan Deal of the Year Award from Peter Matza, ACT head of publishing

MB Petroleum CFO Sushil Srivastava (left) and treasury manager Musaveer Hakeem (right), take the ACTME Bond Deal of the Year Award

Al Fahim group treasurer Ahmad Nassar (right) and investments CEO Michael Clifford (left) receive the ACTME SME Treasury Team of the Year Award

The ACTME Large Enterprise Team of the Year: Mubadala Development Company (top)
The ACTME Corporate Finance Deal of the Year Award is presented to Nawras treasury controller Ali Al Lawati (inset)

Trade and the treasurer's key role

PETER MATZA REFLECTS ON THE KEYNOTE ADDRESSES AT A HIGHLY VALUED NETWORKING PLATFORM.

Matthew Hurn opens the conference

The ACTME's second annual conference was opened by the ACT Middle East's chairman, Matthew Hurn of Mubadala Development Corporation. In welcoming delegates and guests, Hurn looked back four years to the founding of the ACTME and its progress to date. Hurn thanked all those who have contributed to this growth but asked for more, particularly in the area of engaging with governments and regulators using the ACT and EACT relationship with the European Commission as an example. Hurn said that although the region's positive growth was set to continue, corporates and governments would not be immune from the euro zone crisis, the wave of global financial and accounting regulation and the need to open local markets to international competition.

The opening speech of the day was a keynote address by Sheikha Lubna Al Qasimi, minister of foreign trade of the United Arab Emirates.

She said that in broad terms the UAE had been relatively stable during both the Western economic crisis and the recent political changes across the wider Middle East and North Africa (MENA) region and had enhanced its role as the regional commercial hub. The UAE government welcomes the efforts of the ACT and ACTME to promote professional development and education in the area of financial and treasury management and risk management in the region.

The minister added: "We appreciate your untiring efforts to promote excellence in treasury and finance in our country and throughout the Middle East. Your networking platform [the ACTME Annual Conference] is highly valued by our region's treasury, risk and finance practitioners."

Islamic finance and the IT edge

PETER MATZA REPORTS ON SOME OF THE INNOVATIVE FUNDING STRUCTURES IN USE IN THE REGION AND THE ROLE THAT SMART TECHNOLOGIES CAN PLAY IN THE TREASURY DEPARTMENT.

In the first of the detailed breakout presentations, sponsor Al Hilal looked first at current issues in regional treasury liquidity management before shining a light on the Islamic finance market.

The UAE Central Bank proactively eased liquidity during 2008–09 but in particular wanted to attract "sticky deposits" and reduce concentration on "hot" wholesale funding. The UAE market is now liquid and deposits have grown considerably (to AED93bn as we went to press). The current difference between Emirates Interbank Offered Rate (EIBOR) and local money market rates (25–75bp) should facilitate a fall in rates in 2012.

Banks are encouraging borrowing customers to consider their options in the Islamic bond markets, opening their funding needs to new classes of investors. The diversification available and the steps being taken to address the differences between commercial and Sharia law (and between different Sharia jurisdictions) should allow more corporates to access the market in the next couple of years.

A presentation from Saudi Aramco about its huge deal (14 years, SAR3.75bn) earlier this year highlighted how the company has obtained a new and viable source of funding for current and future projects. It was the first project sukuk issued in Saudi Arabia and the longest tenor achieved by a sukuk in the Saudi debt capital market. There were multiple Shariah board approvals and an innovative Shariah structure combining istisna and ijara with musharaka contractual overlay.

The panel discussion that followed emphasised that the Islamic markets require considerable care and attention in terms of preparation, execution and long-term governance. However, the markets are primed for the range and volume of infrastructure projects planned for the GCC and wider MENA region. Indeed, although credit spreads are going up, yields are stable and the negative carry between three-month and five-year rates is at a historic low – an ideal opportunity to issue.

In a concurrent working session, sponsor Sungard facilitated a review of the relationship between treasury strategy and technology with the proviso that treasurers should pay attention to the distinction between "world-class use of technology" and "the use of world-class technology" – it's not what you use, it's how you use it that counts. In sophisticated businesses treasury has a truly strategic role, enhancing value to shareholders and actively managing the risk/return relationship. But to do this effectively treasury needs information and the ability to process it quickly and accurately in order to take properly informed decisions.

Alastair Fiddes, head of financial risk at Mubadala Development Company, suggested that treasury (and its systems) need to be flexible, adaptable and lightweight. This allows the business to create a centralised picture of the overall risk exposure, manage real-time bank relationships and exposures, share high-quality, forward-looking information at all levels in the business, and improve speed and response times.

The panel discussion that followed ranged far and wide over the technology that treasurers have available, from SWIFT to bespoke management systems as well as the qualities that treasurers need to look for in their service providers. A number of participants commented that treasurers needed to be aware that some technology was too complex for relatively simple treasury operations.

She went on to say that: "The UAE government strategy for 2011–13 has ambitious plans to strategically boost foreign trade and investments, optimise infrastructure, and encourage local entrepreneurism. Transparency and good governance will be essential to achieving these goals and maintaining global competitiveness.

"Organisations such as the ACT have a vital role to play in this regard given their exceptional ability to help our professionals reach the levels of proficiency we need to maximise the potential of our diverse industries."

Energising your trade

Conference lead sponsor RBS gave a presentation on "Energising trade – working your capital".

In RBS's view, business change is being driven by global events and banks are part of that process. Basel III in particular will have a fundamental impact on the ability of banks to fund their own balance sheets and those of their customers. Although banks will continue to lend, corporates will need to seek different classes of investors and funding to help secure growth, leading to some elements of bank disintermediation. Trade and supply chain finance – partially secured – will become much more important to the banks as a revenue generator at a lower capital cost. This will lead to a price and service element in relationships. Banks will become selective in their customer base, which may change the dynamic of the corporate-to-bank relationship.

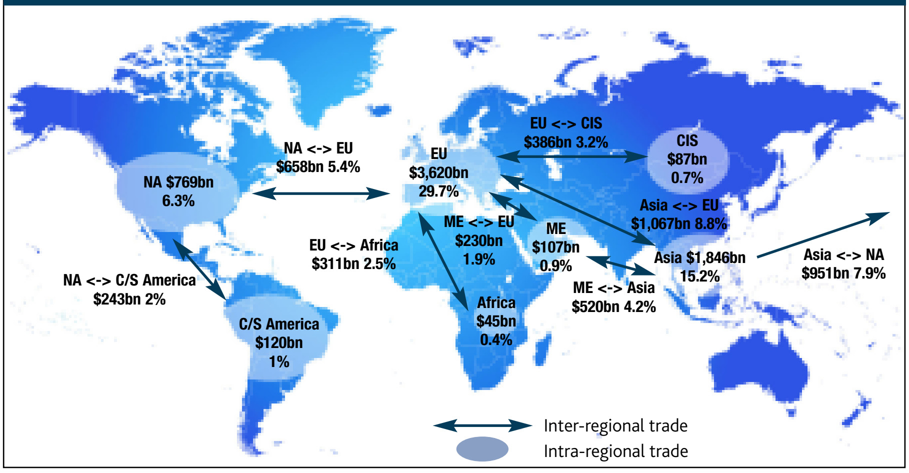
Corporates will also need to consider how they develop, understand and manage their needs. There are differences, of course, between larger and smaller businesses in the Gulf Cooperation Council (GCC) in terms of how banks will manage their exposures. International banks to an extent have been very selective in the products that they would have offered to small and medium-sized enterprises (SMEs), with a focus on fee-based rather than consistent business such as cash management.

Regional and local banks have also serviced their domestic markets reasonably effectively. The emergence of a new Silk Road via India (and the UAE) will offer huge opportunities to UAE corporates as a trade hub. The Arab Spring unrest will delay some wider MENA growth but the GCC – led by Saudi Arabia and Qatar – will have positive growth for 2012 and beyond.

Trade flows

Banks play a critical role in facilitating trade flows, which is high up any list of treasury concerns. This is particularly true for businesses with extended supply chains where banks have a role to play in managing several interlinking players. There is a natural element of self-interest: businesses with more efficient working capital management borrow less, which saves both the business and the bank from the cost of credit allocation.

Figure 1: Regional trade flows 2010 – volumes and as share of world trade



Technology has its role to play in helping businesses with invoice management and understanding counterparty risk exposures and even logistics. Businesses can take advantage of systems to take several steps forward in their sophistication. Supply chain finance (SCF) can be a useful bridge between economies and individual businesses.

Sherie Morais, head of global transaction services Middle East at RBS, told the conference how the traditional trading partners – Europe and the US – maintained strong relationships with the Middle East but that the emergence of newly dynamic, high-growth economies in Asia was producing new opportunities.

She added: "In 1980 just 10% of the Middle East total trade was with Asia. By 2009 this share had risen to 36% and it continues to grow. The shift towards these markets has been exponential. The UAE is forecast to be India's largest trading partner by 2030 with trade values estimated at $103.6bn and future trade flows will be geared towards the developing nations in Asia."

As Morais also noted, 58% of China's oil imports currently come from the Middle East and by 2015 this will increase to 70%. Future trade flows will be geared towards the developing nations in Asia. By 2017, the Economist Intelligence Unit reckons Asia will be the GCC's largest trading partner and by 2030 Asia will rely on imports to satisfy 90% of its domestic oil consumption, up from 75% today. Figure 1 shows current global trading flows.

The challenge of the role

The final plenary session was delivered by James Rigney, chief financial officer at Etihad Airways. The airline started in 2003 and in 2006 Rigney and group treasurer Ricky Thirion joined the company. As a consequence of its youth, Etihad did not really have a developed financial management infrastructure, so the business was able to create its disciplines and systems to suit its development.

Rigney illustrated the challenges of his role by answering the question of what causes him sleepless nights. His answer? Demand for the company's product, quality of yield, fuel pricing and cash (funding) resources. Rigney was clear that the treasurer's credibility and integrity, particularly externally, were crucial in managing these issues for the CFO.

Etihad places a strong emphasis on risk management, governance and process; the treasurer is considered a financial custodian and the board expects him or her to behave accordingly. It goes without saying that great treasurers must do the basics well, but the treasurer must also support the CFO, CEO and board in creating the "best" rather than the "biggest" airline and the CFO should expect the treasurer to be able to think and act strategically.

Etihad has a rolling treasury programme of risk management policy development which includes strategic financial risk management and the hedging programme.

"We are sophisticated in risk analysis but simple in execution of risk mitigation," Rigney said.

However, the challenges of doing business in emerging markets and proposed changes in financial and accounting regulation will make the treasurer's job even harder. Airlines in particular "need to be able to respond globally, swiftly and efficiently to any number of negative events".

The treasurer must therefore have a detailed understanding of the business and be able to see both the short and long-term impacts of any given event. In short, they must have and manage an effective risk management strategy.

Etihad accesses both conventional and Islamic funding markets, not solely in the GCC but in Asian Islamic markets too, seeking out best value and execution.

Meeting the cash challenges

AFTER LUNCH TWO MORE COMPREHENSIVE SESSIONS – ONE ON CORPORATE TREASURY STRATEGY AND THE OTHER ON THE CASH AND TRADE WORLD – CONTINUED TO OCCUPY THE SUBSTANTIAL AUDIENCE.

In its sponsored session on cash and trade, Citi posed a number of challenges to the treasurers in the audience, including how do businesses in emerging markets cope with all their attendant issues, particularly the diversity in financial systems and processes?

In the MENA region, Citi sees a new social justice agenda – healthcare, education, professional development, social housing. But if the oil price starts to squeeze enlarged budgets in the UAE, Saudi Arabia and Qatar, what will this mean for treasurers and their businesses?

Toby Shore, group treasurer at Dubai Aluminium (Dubal), a $2.2bn revenue, government-owned producer of primary aluminium that is the country's industrial flagship, said that his cash management philosophy rested wholly on security, with liquidity, yield diversification and relationships following. The company monitors cash daily but as a single-site business this is a straightforward process although the company runs 70 operating accounts. Depending on capital expenditure needs, it will make cash deposits of up to a year.

Dubai Aluminium uses an internally generated score (called the "Quality Index") to rate its service providers and to allocate treasury business, and it conducts regular feedback meetings with lending banks.

Banks appreciate the consistent approach, which, according to Shore, makes for some interesting conversations. In his view, there needs to be mutuality of benefit and value between the corporate and bank but one that is based on credit provision.

In constructing the Quality Index Shore made use of a range of credit and business metrics to create an arbitrary credit limit based on a level of materiality of loss, whether for financial institutions or commercial customers.

Recently the business has started to use purchasing cards to replace cash transactions but needs time to persuade users of the overall benefits. In one interesting comment Shore said that the company's treasury uses 360T for its foreign exchange trading and he expected his banks to be on the system if they wish to be used by Dubai Aluminium. Over the short to medium term (one to three years) he is looking towards other tech systems to improve cash management and risk control. For more on the Quality Index, see page 16.

Rob Farrow, group treasurer of Alghanim, offered a view of the banking market from a Kuwaiti perspective. Alghanim is a private business active in housing products, importing cars and domestic electronics, with businesses in India and some manufacturing in Vietnam and Ras al-Khaimah (one of the emirates in the UAE).

Farrow uses Kuwaiti banks for domestic funding and international banks for his US dollar needs. Local debt is priced primarily on an overnight index, which is very difficult to manage

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from an interest rate risk perspective; Farrow uses some dollar funding swapped to Kuwaiti dinars (KWD) to help, but that can be expensive and is credit-heavy. Alghanim's bank relationships hinge on stability and reliability in terms of service and commitment.

Farrow also observed that Chinese suppliers have regarded Kuwait as a credit risk because of the Arab Spring.

He does not expect full implementation of Basel III by regional banks but couldn't say what impact this would have on his business or treasurers more generally.

Corporate finance

The other afternoon session, facilitated by the ACT's director of education James Lockyer, saw three experienced treasurers from Kuwait, Oman and Saudi Arabia look at the issues of treasury and corporate finance strategy.

One simple definition of a business is that it is just a series of cashflows – the challenge for treasurers lies in identifying, understanding and addressing the risks to those cashflows as best they can. External events such as social or political unrest are unpredictable and not always manageable but the key is to have a view on the world that is flexible and dynamic to cope even with "unknown unknowns". The treasurers felt that funding in particular should always be at the heart of the business and that funding strategy needs to align with the business strategy – otherwise other risks are introduced.

In their view, when a business wants to take on more risk, treasurers should look to fund with equity. When they are more certain of risk, treasurers should feel comfortable to fund with debt – and then fund early and fund long.

WHEN THEY ARE MORE CERTAIN OF RISK, TREASURERS SHOULD FEEL COMFORTABLE TO FUND WITH DEBT – AND THEN FUND EARLY AND FUND LONG.

Question time

The conference re-assembled in late afternoon for two further plenary sessions. The first was a Question Time-style panel discussion, facilitated by Tom Ashby, business editor of The National. Highlights of a lively session with plenty of audience participation included the following.

■ **Is the Arab Spring good for business?** Perhaps in the long run as it has created a new level of transparency and opportunity, although bringing structural deficiencies into the light may be counterproductive in the short term. Stronger corporates may take advantage of the opening of regional markets, particularly if they have cash to invest. Politically, the unrest is a challenge to the existing social contract and especially to economic development for young populations and access to basic needs at affordable prices.

■ **How can the regional capital markets improve?** Local debt capital markets will need sovereign issuance to add depth and liquidity and there needs to be enhanced transparency and improved governance, perhaps even independent regulators. Equity markets at the SME level are shallow and trading is intermittent – it might help if the UAE had a single effective equity market.

■ **Should banks support property development and did they contribute to the UAE property crisis?** Businesses must view banks as partners rather than holders of endless pots of money. The 2006–07 peak saw huge inflows of hot money (up to $30bn), which found its way to property – but that was partly encouraged by lax monetary policy. The issue was the credit crunch that followed both in property and general corporate lending.

■ **What is the biggest risk/opportunity in the next 12 months?** A number of ideas were suggested as follows.

A full recession in Europe could hit the oil price hard, with serious repercussions, especially where social spending in Saudi Arabia, the UAE and Qatar relies on $90–100+ pricing. European banks could be forced to reduce their credit exposures and facilities in the region. An uncontrolled spread of political unrest could also be a drag on economic growth – a downward spiral to civil war in Syria, Iran/Israel conflict and even unrest in Saudi Arabia could presage a "MENA winter".

There was a lively and passionate discussion about the quality of education and localisation of employment in the GCC, which engendered a range of often conflicting views.

The panel (left to right): Shady Shaher of Standard Chartered Bank, Mishaal Al Gergawi, Tom Ashby of The National, Umar Saleem of DEPA, and Surendra Jain of Arenco

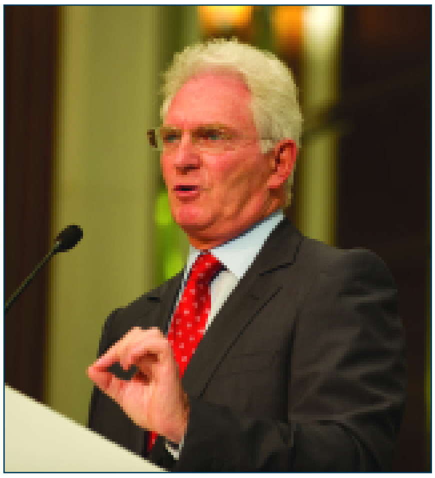
Enterprise's magnet

The conference closed with one of the region's most respected commentators Nasser Al Saidi, chief economist at DIFC, who has long held the view that capitalism is moving east to Asia, saying that Western economies are anaemic and likely to re-enter recession. He added that the Chinese currency, the renminbi, would probably become part of the World Bank system in 2015 and that move would lead its banks to international growth as well as open China's domestic capital markets to international borrowers.

Al Saidi identified a lack of global leadership at the G20, the US and the euro zone, partly because of elections in the US, France, Spain, Germany and Turkey, and partly because of indebted economies. European banking is also in deep difficulty, in need of capital and likely to reduce the amount of credit it can offer.

Regionally there are clear tensions between the oil producers and other MENA countries. Even increased budgets create financial leakage as non-productive imports crowd out domestic productive investment. In addition, social spending by oil producers may be unsustainable, and that will leave a higher burden on an ignored private sector.

Al Saidi said there were also demographic tensions in the transitional economies after the "Arab fire-storm", in particular because of youth unemployment. Political dislocation as a result of unstable systems, corruption and uneven income distribution could lead to further tension and potentially radical political change. Egypt, for example, which is making positive business reforms, is struggling to balance its budget, increase trade, feed its people and cope with reduced income from tourism and overseas worker remittances.



Al Saidi: capitalism is moving east to Asia

The whole MENA region lacks effective pan-regional political and economic institutions to offer a consistent approach to regional development, such as a regional bank for development. It also lacks political support for private sector business growth whether in regulation, access to finance or qualitative educational standards. Al Saidi offered strong support for the region taking control of its own destiny, which he said would boost regional capabilities as long as there was the political will.

The conference chair Matthew Hurn brought proceedings to a close with a simple message: treasury management is as dynamic and important today as ever. The ACT Middle East remains committed to developing and providing support to everyone in the profession across the whole business and financial spectrum.

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For outstanding achievements

The conference also offered an opportunity to recognise those professionals who have made an outstanding contribution to the development of the treasury discipline in the region.

Presenting the Fellowship award, Colin Tyler ACT CEO, said: "In particular I would like to offer the thanks of the ACT Middle East to two founding members of the committee: Paul Reynolds of Rothschild and Ricky Thirion of Etihad Airways. In recognition of their tireless and invaluable service to the ACT and ACT Middle East, I am delighted to announce that the ACT Council has awarded both Paul and Ricky Honorary Fellowships of the ACT." Reynolds (left) and Thirion (right) are pictured above with Tyler.

Educational success was also recognised at the event, with Ms Lubna Qassim, director of the newly established Department of Economic Legislation in the UAE Ministry of Economy, presenting the following three awards.

The Certificate in International Cash Management Prize 2011 went to Dimitrios Gkiokas, HSBC Bank Middle East (below left).

The ACT Middle East Certificate in International Treasury Management Prize 2011 was awarded to Aubrey Cloke, Mazrui Holdings (collected by a colleague, below centre).

The ACT Middle East Student Achievement Award 2011 went to Zaina Al Sawalhi, Emirates Aluminium (holding the award, below right).