An upward curve

Executive summary

- The development of the treasury profession in the Middle East is gaining momentum, allowing members and practitioners to reap the benefits of advanced professional education and critical networking opportunities.

The Middle East region has not been immune to the world economic slowdown although its effects have not been uniform. Dubai itself has clearly suffered from a fall in property investment and development, and tourism has felt the negative impact of recession in northern Europe and Russia. Against that backdrop, the ACT's 12th ***talkingtreasury*** event provided further evidence of the impact that the ACT Middle East (ACTME) is having in the region. Delegates and speakers gathered from Kuwait, Bahrain, the UAE, Oman and Saudi Arabia; local, regional and multinational organisations and businesses were represented.

As always the real value of a ***talkingtreasury*** event is the opportunity to hear senior treasury professionals debate and compare their experiences in corporate treasury. The opportunity arises both in the panel discussions and the serious networking sessions during refreshment breaks. In addition, the overall programme for the day reflected feedback from the ***talkingtreasury*** held in January as well as subsequent events provided to the treasury community by the ACTME.

This report is an overview of the day's events. One of the day's sessions – on corporate governance and treasury policy in asset management – will be the subject of a more detailed review in a later edition of The Treasurer.

The first session of the day focused on funding options available to businesses in the region. The scene was set by Arul Kandasamy, head of investment banking at ADCB. In his view the return of liquidity to global financial markets was mirrored in the Gulf region, but at a price. UAE banks have had the same sort of funding issues as their corporate customers and have had to rely increasingly on their customer deposit base for refinancing liquidity.

Global bond markets were becalmed in 2008 and although 2009 has seen a resurgence, investors have sought issuers with investment-grade credit quality and willingness to pay substantial credit spreads. The UAE central bank has provided both subordinated capital support and liquidity facilities to maintain system stability and depositor confidence. This has been demonstrated by flows returning to local institutions following a move towards more secure international banks in the second half of 2008.

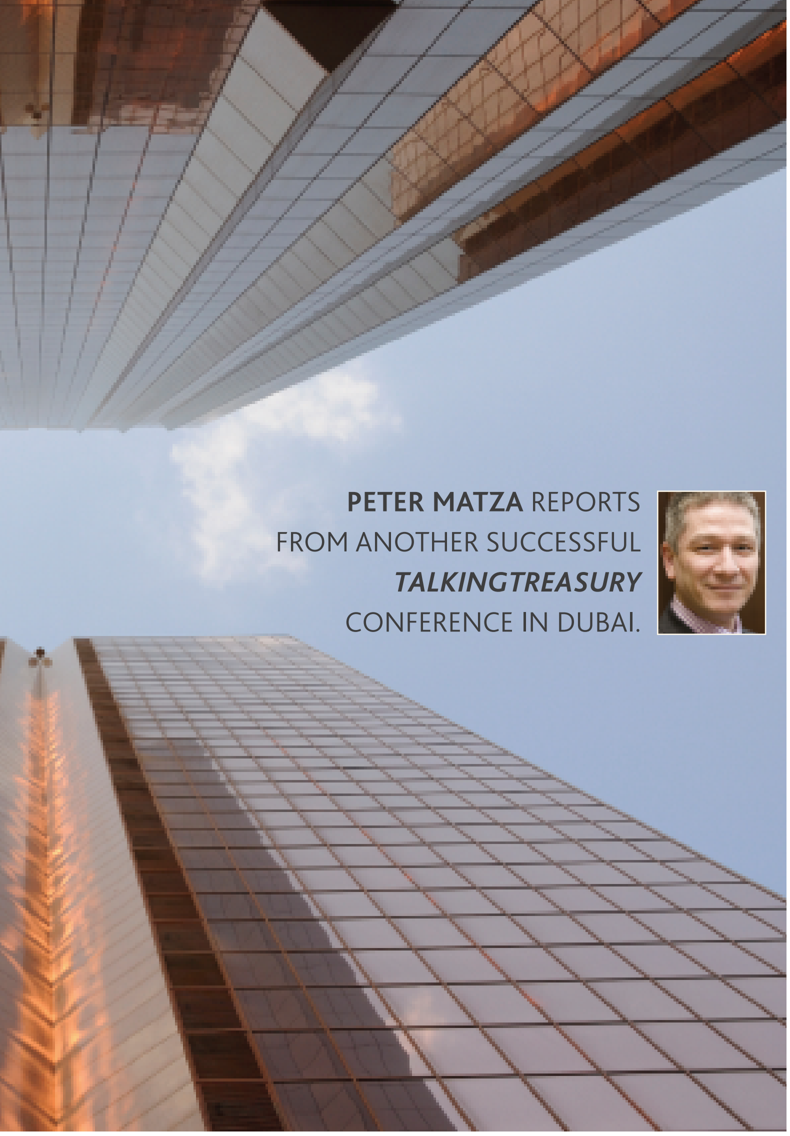
The impact on corporate funding was debated for the audience by Murtaza Chevel, CFO of Palm Utilities, Kevin Taylor, head of treasury at ADCB, and Ricky Thirion, group treasurer of Etihad Airways.

From the perspective of a lending bank, Taylor said banks had needed to manage their asset and liability position dynamically to ensure funding opportunities were recognised and taken when they appeared, whether from capital markets, local deposits or even new capital raising. Clearly this has affected their ability to provide credit and required the delicate balancing of customer relationships with scarce credit!

Thirion echoed these comments. He said treasurers should always be considering various avenues of funding and that diversification of funding sources and closely matching assets with liabilities was simple good practice. Diversification for its own sake, however, is not the key issue; rather, it is the all-in cost of the debt from whatever source should be the focus of the treasurer.

As an example Thirion cited the aircraft leasing market, where there was growth in lenders from China looking to diversify their investments allied to a focus on credit and return. Thirion suggested that treasurers had to ensure debt stakeholders were properly managed, whether by the treasurer directly or in conjunction with an investor relations function.

However, he also went on to say that the prime source of funds for a business lies within the firm's activities: its own working capital. Cash is still king!



PETER MATZA REPORTS FROM ANOTHER SUCCESSFUL ***TALKINGTREASURY*** CONFERENCE IN DUBAI.

Although speaking from the position of a funded utility concessionaire, Chevel endorsed the position that treasurers and CFOs had to be aware of potential new sources of capital. In the utility space this might include international infrastructure funds looking for stable long-term investment opportunities. In dealing with banks, Chevel suggested that treasurers should have the highest possible level of contact within their relationship banks to ensure prompt decision-making and consistent levels of banking service.

The universal understanding that businesses need cash to survive led neatly into the second session of the day in which payments and collections was considered in some detail. The session was chaired by your correspondent, who took the practitioners on the panel through a series of key topics to establish their views on good practice in this field. The panelists were Assim Al Abassi, group CFO of Economic Zones World, Jelle Keypurs, treasurer of Sohar (Oman) Aluminium, and Jacob Tharakan, treasurer of Qatar Telecom (Qtel).

The initial stages of the discussion centred on cash forecasting. It was generally agreed that as a management discipline, forecasting is highly desirable but in the treasury context there can be some mixed messages.

The key issue is whether the frequency of a forecasting process could compromise its quality. If seen by operational finance people as a rote exercise, the reliability and consistency of the reporting process may be questionable.

Al Abassi pointed out that there may be other circumstances where the process is less reliable. In his fast-growing business (responsible for the economic development area of Jebel Ali in Dubai), volumes and values have been changing quarter by quarter. In these circumstances there is no substitute for treasurers getting into their businesses to understand for themselves the drivers of cashflow. To maintain the discipline of the process, there was general agreement on the panel and from the floor that variance analysis was just as important as the production of the original forecast.

Kuypers explained that as an Oman-based industrial business, Sohar had some problems in dealing with the domestic banking infrastructure, especially on payments. As a result, he had structured the treasury to increase the use of intracompany netting pools, and found similar ways to reduce friction in cash management.

Tharakan had taken Qatar Telecom further into this process, having signed up as a Swift member under the MA-CUG system, which has offered some corporate access to Swift functionality. Tharakan runs a somewhat decentralised treasury function, with local geographic business units responsible for domestic cash management; the centre looks after debt and risk management. The Swift solution is not perfect and more recent developments from Swift are intended to make corporate access more user-friendly.

The principles of transmission banking do not change from one region or business activity to the next. Treasurers everywhere are seeking effective systems, transparent banking processes and cost structures, simplified documentation and system reliability. All the panel members agreed that standardisation of systems (especially clearing systems) was desirable but questioned whether all local and regional banks would be able to compete. They thought some might need to find other solutions – whether by buying in systems, "white labelling" or regional associations – to compete with the bigger international banks and other providers.

The underlying objective of the ACT and ACTME is to ensure that we provide the recognised standard in treasury and corporate finance education. This means offering students and experienced financial managers the opportunity both to complete the full set of ACT qualifications as well as allowing them to follow organised modular study in certificate format to attain basic level skills and knowledge. Treasurers will still have to earn their smarts, however!

It was appropriate therefore that this ***talkingtreasury*** event featured a very interesting discussion on career development. The principles of professional career development for treasurers were set out by Marco Boni, MD of executive search firm Spencer Stuart. His message was that there was still some way to go in raising the profile of the treasury profession in the Middle East.

Having said that, Boni was quick to point out that ACT qualifications were becoming an integral part of the senior job searches his firm undertook for clients, both in the corporate arena as well as in financial institutions. But Boni emphasised that other characteristics had to be blended with educational achievement to advance a treasury career to its most senior levels. He listed soft management skills, international exposure, the ability to manage equity and debt stakeholders and so on, as well as more obvious technical skills.

Seedy Kaita, based in Jeddah with the Islamic Corporation for Development, pointed out that the ACT's broad approach included a code of ethics. He felt this meant the profession and its members and students maintained a higher status compared with many other financial qualifications. The panel and floor discussion that followed highlighted that treasury careers did not necessarily follow obvious paths and that part of the value of the qualifications lay in the opening up of other financial management disciplines such as insurance or pensions management.

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