Growing sophistication

INCREASING SOPHISTICATION AND INTEGRATION IS THE FUTURE OF TREASURY MANAGEMENT IN THE REGION, SAYS **SYED-KAMRAN ZAIDI**.

Despite the short-term challenges faced by the Middle East and North Africa (MENA), the development of increasingly sophisticated treasury solutions means there is light at the end of the tunnel for the region's corporate treasurers.

There is no escaping that these are tough times for MENA. The recent political turmoil and constant negative media attention have caused nervousness among investors, leading to a tightening of credit and rising financing costs for companies, which has had a significant negative impact on business conducted in the region. While the unrest continues, the revaluation of credit risk associated with MENA as a whole and a heightened financial risk profile look set to remain the reality in the affected countries.

This presents the region's corporate treasurers with a series of difficult challenges, such as increased credit risk and supply chain disruption, that must be overcome if their companies are to survive the storms. While overcoming these hurdles will be no mean feat, the situation is far from all doom and gloom. Although media coverage has focused almost exclusively on the political troubles, some countries have fared much better economically than others, and many Gulf markets have enjoyed a relatively steady financing environment as a result of the comparative stability of their respective political systems.

POSITIVE OUTLOOK Likewise, the majority of the region's markets are relatively small and remain open, supported by strong public balance sheets and positive outlook for commodity prices. Hence, despite the current difficulties, the outlook for cash management – and by natural extension trade finance-related services – in MENA is largely positive.

Evidence for this optimism may be found in the strong growth of corporates in both Saudi Arabia and the United Arab Emirates (UAE) as well as the resilience of intra-regional trade flows and an increase in trade flows between MENA and Asia. Also, there is huge demand for infrastructural investments in the region, which in turn creates demand for large project-related equipment. As long as the regional economies retain the ability to spend and invest, this will remain a highly interesting market. This is, of course, unquestionably good news for the region's corporates, and a significant contributing factor to the growing corporate demand for increasingly sophisticated – and, crucially, integrated – cash management and trade finance solutions.

THE DEVELOPMENT OF INCREASINGLY SOPHISTICATED TREASURY SOLUTIONS MEANS THERE IS LIGHT AT THE END OF THE TUNNEL FOR THE REGION'S CORPORATE TREASURERS.

CHANGING TIMES FOR TREASURY MANAGEMENT While the vast majority of global trade is conducted on open account – indeed, this form of trade is steadily growing in the domestic space – trade in the Middle East is still dominated by traditional letters of credit (LoCs). In light of the region's present political and economic instability, this seems likely to remain the case, as increased risk naturally leads to a greater appreciation of the added security an LoC provides.

That said, such adherence to convention and aversion to risk does not mean that the region has no place for more structured and sophisticated treasury solutions – particularly those that could assist local corporates in reducing transaction costs and optimising working capital and risk management. The scarcity of market liquidity combined with restricted access to bank-supplied credit lines – an issue that is by no means exclusive to MENA – means that treasurers are under growing pressure to do more with less. As a result, making maximum use of company cash is now crucial to commercial sustainability and future business growth.

BUSINESS SUSTAINABILITY THROUGH INNOVATION Certainly, commercial longevity is a key issue for domestic corporates. While MENA has historically been more financially conservative than some other regions and has therefore always leaned towards practices conducive to security and steady growth, many local corporates are now looking at more innovative ways to ensure business sustainability. For many corporates, this will mean finding reliable methods to plug any potential funding gaps and effectively mitigate risk, and the regional approach to this is rapidly changing. Whereas many domestic companies would have once dealt with cashflow issues through overdrafts and regular bank loans, receivables-based financing and similar structures are now gaining in popularity.

Looking at risk management, there is a growing trend for corporates to adopt a more holistic approach, with many regional manufacturers increasingly taking steps to assist their smaller suppliers in reducing their risks. This is in recognition of the fact that emphasis now needs to be placed on the broader concept of enterprise risk management for the good of the extended value chain. Such a view marks a significant shift from the conventional, siloed methods of assessing individual credit, liquidity and counterparty risks, and is vital for the continued success of increasingly complex commercial networks. As a result, it is rapidly gaining momentum throughout MENA, with the trend for a holistic approach applying equally to treasury management.

INTEGRATED TREASURY SOLUTIONS When assessing regional treasury trends, it is imperative to consider the notable impact of Islamic finance on corporate treasury management. While the growth of this sector is perhaps more visible in the debt financing market – Shariah-compliant bonds, in particular – than other areas, it is now greatly influencing treasury practices.

This is because the financial crisis has highlighted the benefits of the tenets of Islamic finance: increased transparency, no interest, no speculation and no contingent speculative liability in any transaction. There is a regional trend towards the employment of Islamic structures, or solutions that may fit the principles of Islamic finance, such as integrated cash and trade solutions. Indeed, many corporates now understand and appreciate that the full integration of cash and trade can leads not only to increased transparency, which is crucial for enhanced risk mitigation, but also to maximum efficiency of working capital and liquidity management.

Cash and trade convergence can certainly give treasurers far greater control of their cashflow by increasing end-to-end visibility and enhancing risk mitigation. Given today's liquidity constraints, working capital and risk management are more important than ever before, and both require a combined approach that promotes the increased visibility of transaction data and information and the end-to-end process flow. This is especially the case for risk management, on which the sustainable flow of operating cash depends.

THE FUTURE OF TREASURY MANAGEMENT IN THE REGION As the regional financial landscape continues to evolve, MENA offers ample opportunity for developments in treasury management, which can only be to the future benefit of the region's domestic corporates. With the regional demand for sophisticated and solutions-driven commercial and correspondent banking partners on the rise, Deutsche Bank is well positioned to offer its corporate clients the help they need for future commercial success.

In April 2011 Deutsche Bank launched a full range of cash management and trade finance services out of its branch in Riyadh, Saudi Arabia, offering international trade finance solutions, cash management and treasury solutions, which include taking non-retail deposits in a number of Gulf Cooperation Council (GCC) and international currencies. Deutsche Bank has long been a proponent of integrated cash management and trade finance solutions, recognising that their convergence is the key to enhanced transparency and optimum processing efficiency. Coupled with services offered out of our Abu Dhabi branch and onshore presence in Dubai, Doha, Bahrain and Cairo, the expansion and increase in solutions offerings in Riyadh marks a significant milestone for the bank's regional franchise and reflects our strategic focus on MENA.

Despite the short-term challenges being faced due to the political unrest, we remain positive in our outlook that the region can lay the foundations for a socially inclusive and dynamic growth model that provides long-term opportunities. In recognition of this, Deutsche Bank continues to invest in technological innovation and expertise to remain the partner bank of choice for the region's corporates.

Syed-Kamran Zaidi is regional head of trade finance and cash management at Deutsche Bank.
syed-kamran.zaidi@db.com
www.gtb.db.com

Deutsche Bank