TIME MEANS MONEY

As Middle Eastern family-owned businesses develop into regional and global players, they are turning to automation to make their financial operations more efficient, says Sido Bestani

The Middle East may boast some of the world's market-leading multinational corporates, but the majority of the region's companies remain family-owned operations. As they develop into regional and global players, these dynamic businesses are looking at how their financial operations could benefit from automation at the same time as addressing new security challenges.

The Middle East and North Africa (MENA) region has a combined GDP of almost $3 trillion – about 4% of total global output. According to HSBC, this proportion is supposed to rise to 5% by 2050, which will make MENA the world's third most productive region behind China and India.

This growth is based on more than the region's abundant natural resources. Besides having almost 60% of the world's oil and 41% of its gas reserves, the Middle East has enviable demographics and is ideally situated to benefit from growing 'south-south' trade. The numbers speak for themselves. More than three in five of MENA's citizens are under 25 – a demographic dividend for the workforce that is also helping to create a sophisticated and wealthy consumer class that is eager to buy domestic goods and services. The region's trade flows with Asia have been growing at 18% a year since 2001.

There is every reason to expect this positive growth story to continue. The governments of the Middle East, particularly in the Gulf Cooperation Council (GCC) states, are pursuing pro-growth policies and supporting economic diversification. There are huge infrastructure projects under way in Kuwait, Saudi Arabia, the United Arab Emirates (UAE) and all around the Gulf – including the Doha Metro and improved venues for the 2022 FIFA World Cup. Significant investment is also taking place in education and in alternative energy industries.

New chains of buyers and suppliers have been created, and substantial non-oil growth is emerging. During a 10-month period in 2012, for example, Dubai's non-oil foreign trade rose to a record AED 1 trillion for the first time in the emirate's history, an increase of 13% on the same period a year earlier.

As a result, the Middle East has an increasingly dynamic corporate sector. Although it boasts some of the world's leading multinationals, the business landscape is in fact largely characterised by a huge number of family-owned firms. According to Al Masah Capital's *MENA Family Businesses* report, there are around 5,000 large family firms in the Middle East, with net assets totalling $600bn. In the small- to medium-sized enterprise space, it is estimated that there are between nine and 11 million businesses across MENA.

Many of these companies are evolving rapidly – keen to exploit the positive trends and grow apace with the region. But with growth comes additional pressures, which can stretch the capacity of manual processing. For example, getting bigger and developing cross-border

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business means there is a higher volume of transactions to be processed, and a more complex set of financial products or currencies to be managed, across a greater number of counterparties. Larger pools of working capital will have to be monitored and optimised.

The cash held by Middle Eastern corporates as a buffer could reach $2 trillion by the end of this year, according to research provider EuroFinance. As a result, Middle Eastern corporates are taking a fresh look at their operational processes – including cash management and operational risk. Many are rethinking how they interact with their banks.

Increasingly, Middle Eastern companies are looking to automate and streamline processes that have remained stubbornly manual. Historically, take-up by GCC businesses of online banking and treasury management technology has been low compared with jurisdictions in Europe and the Americas. The cheque – long ago deposed by electronic transfer as the most popular corporate payment mechanism in other markets – has remained popular in the Middle East. As the demands of growth put pressure on existing processes,

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however, more and more corporates across MENA have a greater awareness of what technology can offer. They are seeing the benefits of automation and the use of global payment standards. Middle Eastern corporates are moving away from cheques and Excel spreadsheets towards electronic payment and treasury management systems. They are joining SWIFT to create a single gateway to all their financial services providers.

The benefits of adopting these kinds of technologies can be startling. By cutting out manual processes and increasing straight-through processing, automation increases efficiency and streamlines operations. At a stroke, companies can slash costs, increase efficiency and drastically reduce operational risk.

SWIFT has benefited from the take-up of new technology. Over the past few years, we have seen a rapid growth in the number of corporate clients in the region. In 2012 alone, there was an 83% increase in the number of corporates on the SWIFT network compared with 2011, which helped to take the number of corporates on the network past 1,000 for the very first time. They have joined a fast-growing community of corporates who use SWIFT to gain efficiency and reduce risk.

With cyber attacks a growing threat to corporates as well as governments, the need to reduce risk is a hot topic. The *Websense® 2013 Threat Report* showed a dramatic increase in cyber attacks during 2012, led by an astounding 600% rise in the use of malicious web links, often carrying a virus that will paralyse corporate networks and internal systems. In 2012, the UAE was sixth globally in the list of 'victim' countries for cyber attack.

Crucially, use of SWIFT offers unrivalled levels of security. The SWIFT network offers the highest levels of encryption and authentication technology available. It also ensures guaranteed delivery for payment messages and third-party non-repudiation. Once connected to SWIFT, corporates can use a single security channel for all their financial services providers. Rationalising security mechanisms leads to tighter security management and control. SWIFT's unique, multilayered approach to security ensures that individual transactions are protected against manipulation and fraud; the integrity and confidentiality of all traffic between the user and SWIFT are guaranteed.

As Middle Eastern corporates continue to grow and diversify, they will be faced with an ever more complex finance and supply chain. At the same time, corporates are operating in an environment where extreme 'black swan' events are occurring with far greater frequency, with knock-on effects on supply chains and finance. Luckily, today's corporates have more tools at their disposal than ever before to help optimise their operations and reduce risk. In the Middle East, we see more and more organisations taking the opportunity to use them.

BANK PAYMENT OBLIGATION

The Middle East offers one of the world's most vibrant trading hubs. According to the 2012 World Trade Organization (WTO) trade statistics report, the UAE experienced 30% growth in exports between 2011 and 2012, while Saudi Arabia saw 45% growth in the same period. In that report, the WTO classified the UAE as the world's 20th biggest exporter in merchandise trade, surpassing countries such as Australia, Brazil, Norway, Sweden and Switzerland. Corporates active in trade finance, therefore, have even more opportunity than most to benefit from automation and standardisation.

Emirates Office Tower and Jumeirah Emirates Towers Hotel, Dubai, UAE

Recent developments in supply chain finance should make the prospect of automating financial processes even more compelling. In April this year, the International Chamber of Commerce (ICC) and SWIFT launched the new Bank Payment Obligation (BPO) instrument. Comprising new legal and technology standards, the BPO allows buyers and suppliers to secure and finance international trade transactions, providing the benefits of a letter of credit in an automated and safe environment.

The BPO addresses one of the challenges faced by today's CFOs and treasurers: the need to better manage short-term liquidity needs by releasing trapped cash from operations. Even in the most developed corporate markets, estimates suggest that companies are leaving billions in working capital 'locked up' across their operations in out-of-date payments and collections infrastructure. As a crucial element of supply chain finance, the BPO will improve the financial efficiency of the supply chain and greatly reduce the working capital of both buyers and suppliers. It allows buyers to extend payment terms while giving suppliers access to better financing rates. As a result, it is one of the most attractive tools for companies to diversify their funding sources, at the same time as enriching and solidifying their trading relationships.

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