Planting a seed

WHAT DO YOU NEED TO KNOW ABOUT ESTABLISHING A NEW TREASURY FUNCTION IN THE MIDDLE EAST? CHRIS VAN DIJL EXPLAINS

As an organisation grows and expands, there will come a time when it reaches the right size to establish its own dedicated treasury function. Given the tremendous growth of emerging markets over the past decades, together with the impact of the financial crisis and the resulting heightened awareness of the necessity for control and risk management, it is no surprise that many treasury functions are being established in the Middle East.

But what does it take to establish a new treasury function? In this article, we will go through the main areas of focus that need to be considered.

We can divide the process into four distinct phases:

1. Kick-off: data collection and defining the vision.
2. Documentation: treasury mandate, policies and procedures.
3. Resourcing: people and systems.
4. Embedding the treasury in the organisation.

It is recommended that, at the end of each phase, a summary is produced and sign-off is achieved from either a steering committee or the shareholders of the organisation.

1. Kick-off: data collection and defining the vision

When kicking off the project to establish a new treasury department, it is important to realise the task at hand. The size, shape, form and priorities of the new function will depend on the number of subsidiaries, geographical spread, amount of bank relationships and the industry or industries in which it operates. Another critical point that needs to be taken into account is the future plans of the organisation. If substantial growth is foreseen, then the new function will need to be able to be scalable.

The process should start with the collection and analysis of all static treasury data. An example of the minimum details that should be obtained can be found in the box on page 17.

Before the vision can be designed, it is crucial that a substantial number of meetings, or interviews, are held, both with the operational staff as well as the senior management and the shareholders in case of a family group. Typical examples of questions that should be addressed are: should tax be under the control of treasury? What about insurance? Who will be responsible for the accounting entries of the treasury transactions?

The kick-off phase is all about two questions: *Where are we?* And *where do we want to be?* In order to answer these two crucial questions, it is important that the team responsible for these tasks has both the necessary corporate

THE FOUR PHASES OF ESTABLISHING A NEW TREASURY FUNCTION IN THE MIDDLE EAST

TREASURY STATIC DATA

- Bank accounts
- Bank relationships
- Online banking systems in use
- Outstanding FX transactions
- Outstanding investments
- Outstanding trade finance instruments
- Credit facilities and usage
- Funding arrangements in place

treasury experience and is aware of current market best practice. It is usually in this phase that the assistance of an external consultant with a solid corporate treasury background or a newly appointed (interim) treasury manager or treasurer is obtained.

2. Documentation: treasury mandate, policies and procedures

When the treasury static data has been analysed, and the future vision for treasury has been defined and agreed, the next step would be to create a high-level draft treasury mandate. This document is the strategic document for the treasury function, which highlights its role and philosophy, and whether the department will be a cost centre, profit centre or a value-add centre. It also specifies the high-level activity scope for the new treasury function.

After the board has approved the treasury mandate, the more detailed policies can be drafted. The policy should state for each activity scope the related authorised transactions, as well as the governance framework in order to control the activity. The policies would also include the delegation of authority and mandate.

Finally, detailed (desktop) procedures should be drafted. Desktop procedures are very important for the day-to-day operations of the treasury department, since they document every single action and step that needs to take place in detail. They are also a key component of the business continuity procedures for the department. Desktop procedures are best developed over time, however, because a lot of the contents for the procedures, such as system screenshots, can only be obtained once the system has been implemented.

3. Resourcing: people and systems

As soon as the high-level vision and treasury mandate have been approved, work can start to fill the open positions in the new treasury function.

The discussion will be whether to hire treasury experts externally or to promote internal staff to the treasury department. If the person responsible for setting up the new function is a seasoned treasurer or head of treasury who is recruited externally, then the preference would be for the junior team members to come from internal sources. The externally appointed treasurer can train the internal recruit and education can be formalised through external treasury bodies (such as the ACT). This route would not only provide a new career path for the existing staff, but it would also ensure that the department has a succession plan in place regarding staffing. Moreover, hiring internal staff who have a good knowledge of the organisation will assist in the embedding of the new treasury department throughout the organisation.

The kind of treasury system that is required will depend on the mandate that has been given to the treasury function, the industry/industries the organisation is operating in and the type of treasury transactions that are expected. The main considerations that would need to be taken into account are whether the treasury function is more focused on cash management or risk management/trading, as there are specialised treasury management systems for each category. The process would involve issuing a request for proposal, highlighting the core requirements of the desired system and issuing this to suitable vendors.

4. Embedding the treasury in the organisation

One element that is often overlooked when establishing a new function, or in fact, when implementing any type of change in an organisation, is to ensure that the new function, process and/or system is fully embedded in the organisation.

This means that even though everything within the function is running smoothly, the marketing of the new function needs to continue. The purpose of the promotion should not only be to advertise treasury's benefits to the organisation, but also to keep stressing the new procedures that are now applicable. These could include routing all bank requests through the new treasury function or keeping treasury informed of any changes in cash requirements at the unit.

The format in which to embed the new treasury function will entirely depend on the organisation, but could include quarterly updates in the internal magazine, regular training sessions for finance staff or presenting at the organisation's regular planning sessions.

Summing up

The phases described above should not be seen in strict isolation from each other and they will usually run parallel in order to speed up the set-up process. It could even be said that it is a revolving process and that, in order to ensure continuous improvement, it should start again from the beginning once the project is over.

The establishment of a best-in-class treasury department that suits the organisation is a very challenging process. If implemented correctly, however, the results from a dedicated treasury function with dedicated treasury staff will add value to an organisation.

For more on setting up a treasury function in the Middle East, please see the case study on page 18

Chris van Dijl is an independent treasurer and consultant. He is the founder of Cugavadi, a niche consultancy in Dubai that focuses on treasury and risk advisory services. Email: chris@cugavadi.com