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WHITEPAPER

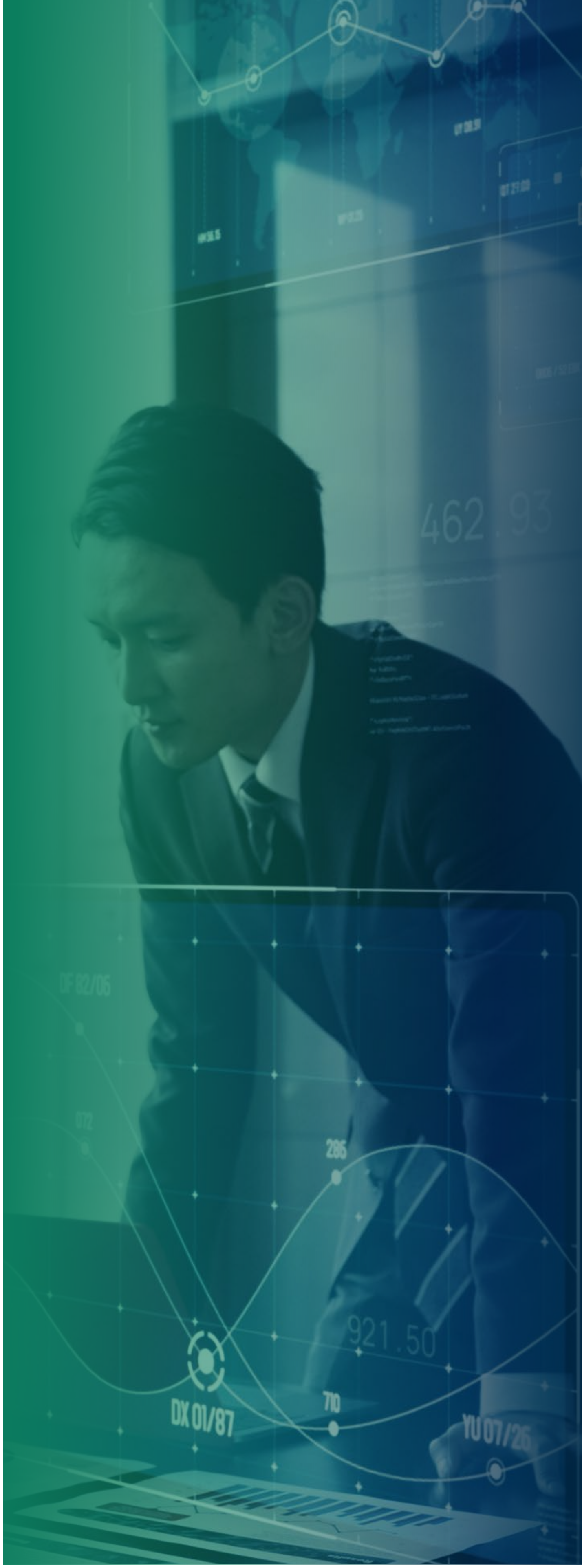
# TREASURY TRANSFORMATION: INSIGHTS FROM MIDDLE EAST AND AFRICA (MEA)

As the custodians of cash, corporate treasurers were, in recent years, also tasked with delivering cost optimisation and operational efficiency as their organisations sought to ensure a resilient future. Today, there is a shift again towards supporting business growth. And treasurers must play their part.

Corporate treasurers are undertaking treasury transformation to simplify, to rationalise, to centralise, and to drive greater efficiency – securing their status as a strategic partner and enabler to the business. Ensuring a successful treasury transformation can be a challenging process.

This paper, ***Treasury Transformation: Insights from Middle East and Africa***, which Standard Chartered proudly presents in partnership with the Association for Financial Professionals, brings together the experiences, practices and views of corporate treasurers across 17 markets in the region. In it we share treasurers' comments, best practices, and factors to consider, including the role of technology and skilling of treasury teams to assist you in this journey.

We are ready to support treasurers as they transform for the future, sharing our local expertise, knowledge of the differing operating and regulatory environments in each market, relevant solutions, and experience from working with clients across industries and across the world.



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# INTRODUCTION

In a dynamic world, treasurers are under constant pressure to operate as efficiently as possible as they try to support their organizations' business strategies. The technology available to treasurers is changing rapidly, as are the regulations that frame how companies can manage their treasury operations. Developing a strategy to navigate change in this complex landscape is challenging, given the specific requirements of individual companies and the often very different market conditions in each jurisdiction in which they operate. Yet, while the details of every company's treasury transformation journey are different, there are some best practices for a framework within which to manage a transformation project.

This paper is a commentary on the themes that emerged from the results of the 2023 AFP Treasury Benchmarking Survey on Treasury Transformation. It covers the responses from corporate practitioners located in the Middle East and Africa (MEA). The survey was undertaken in September and October 2023 and covered the focus, drivers and potential barriers to the success of treasury transformation projects, with an emphasis on the role of technology, personnel and skills in the treasury department. The survey garnered responses from practitioners in 17 countries across the region, with the majority working in privately held corporations. Responses came from practitioners across most industry types; the banking/financial services and manufacturing sectors had the highest representation. There is a companion paper that addresses responses from those located in the Asia-Pacific region.


# THE FOCUS OF TREASURY TRANSFORMATION PROJECTS

Treasury transformation projects can take many forms. Some are major undertakings, such as changing a manual-process-driven department to a fully digitalized, real-time treasury. Others are more incremental, in the form of an ongoing process running over many years, focused on the desire to become more efficient over time. Across the MEA region, most transformations have taken place across liquidity and cash planning, cash management and forecasting, and working capital management. A significant number have also taken place within bank relationship rationalization, short-term investing and foreign exchange management.

In practice, treasury transformation projects are shaped by many factors, both internal and external. A company's complexity and the stage of development of the treasury department typically set the baseline from which any new transformation project will be built. The attitude of internal stakeholders, including the treasurer, executive management and investors, will help frame the ambition of each project. External factors, such as the functionality offered by banks and technology providers, as well as the prevailing regulatory regime, will define what is possible.

Within these parameters, all projects are sparked by an initial impetus. Among the underlying reasons given by the survey respondents for their embarkation on treasury transformation were:

- **A general aim to become more efficient.** Along with other departments, treasury is under pressure from senior management to streamline operations. Many treasurers view treasury transformation projects as individual steps in an ongoing process, for example, by gradually adopting more functionality from a previously installed treasury management system (TMS).
- **A specific objective to support a growing business, especially when establishing operations in new jurisdictions.** Change may be driven by the need to manage a more significant foreign exchange risk or a recognition that existing manual processes are not scalable and so cannot support an expanding business.
- **A new hire brings a new approach.** Often, it takes a fresh pair of eyes to identify opportunities to make changes, as there can be a reluctance to change a process "that works."
- **To meet regulatory requirements.** While companies need to be able to demonstrate that they know their customers (e.g., to protect against the risk of money laundering), multinational companies operating in jurisdictions that apply exchange controls have to meet another layer of regulation to make and receive cross-border payments.

## TREASURY TRANSFORMATION DRIVERS

- INCREASE EFFICIENCY
- SUPPORT GROWING BUSINESS
- NEW HIRE, NEW APPROACH
- MEET REGULATORY REQUIREMENTS

As a treasury practitioner based in Zimbabwe explains, "There are exchange controls, and we need to pay foreign suppliers in foreign currency to remain in business. Regulators also want proof of residence/passport of travelers when they pay in foreign currency. We have to spend a lot of time talking to regulators, who are concerned over the risk of capital flight and illicit financial flows, so we can show them that cash flows comply with the rules. To expand into new territory, we need to understand how cash is regulated in that market and how we can fund the business in a legitimate way."

Abiola Kayode, a treasurer based in Nigeria, says that high inflation makes planning "very difficult," a problem that is compounded by an unstable political environment which can result in regulations changing quickly.

Treasurers also value input from their industry peers. As Syed Khurrum Zaeem, Head of Transaction Banking, Africa and Middle East, at Standard Chartered, explains, "Our clients want to learn from each other. Treasurers want to speak to those with experience [of undertaking transformation projects]. We connect clients so they can discuss what's changing in the markets, for example, the introduction of corporate tax in the UAE, developments in payments, or the impact of digitalization initiatives from central banks, and how these changes affect how they do business."

**Treasurers want to speak to those with experience.**

# TRANSFORMATION OBJECTIVES

Given these varied drivers, each transformation project will have its own specific objectives, the scale and scope of which vary quite significantly. In every case, though, there is at least one core objective that dominates the agenda for the project lifecycle. This specific objective provides a focus for the project, which is critical for the treasurer as they seek to gain buy-in from internal stakeholders and budgetary and resource support from senior management.

The following case studies highlight how a clearly defined objective feeds through to the design of the project itself.

## A cash concentration project

**Banks play an important role in helping treasurers determine how to meet the specific objectives of many treasury transformation projects**, especially given regulatory constraints. As Naved Akhtar, a Senior Treasury Manager in UAE, explains, "When considering a treasury project, it is critical that we understand our requirements and discuss them with our trusted banking partners. They understand our business and how we operate — the financials, structures and business models, as well as our daily cash flows."

Banks can draw on their experiences with multiple clients and can provide specific advice on particular projects, especially with respect to the impact of regulation. "Sometimes, something that looks logical to a treasurer can be difficult to implement depending on each market. It is, therefore, key to take into consideration things such as exchange regulations, withholding tax implications, and ability to operate at arm's length for cash concentration structures when involving multiple legal entities," adds Zaeem from Standard Chartered.

Banks are not the only key partners. Treasurers cannot make decisions in silos and need to work with internal stakeholders and external partners. Openness is key, both in terms of immediate needs and future plans.

Taking cash concentration as an example, banks can "provide analysis of the business, our financial health and liquidity requirements and also help us with risk assessments. They can help us get the best cash concentration structure while mitigating fraud, compliance and operational risk," says Akhtar.

In treasury, this is typically an ongoing process, as Akhtar explains, "Even if we have a structure in place, **changes in the business or in local regulation can have implications** for the cash concentration structure. In this case, we will speak with our bank to ask whether it is still feasible to do what we want. They may have a solution, or they may need to change their own processes to deliver a solution that works for us. It is critical to be aware of market changes."

## Manage operational cost

Another common objective is to reduce departmental running costs. Such an objective can be driven by senior management asking the treasurer to identify departmental savings as part of a business-wide focus on improving efficiency. Or, as in the following example, there is another common scenario where the treasurer recognizes that existing processes are not sufficiently scalable to support a rapidly growing business.

In 2021, a group treasury manager from Saudi Arabia made the decision to digitalize their treasury department, both to cut costs and also to support management's plan to pursue an IPO. He selected a TMS, and the implementation process started in early 2023.

A key objective of the project was to reduce operational costs and improve controls through process automation. The project is staged, with payables processing the first activity to be automated. There was some initial resistance to the project, as some stakeholders had been used to initiating payments directly via online banking. Now, stakeholders have to follow an integrated workflow, with, for example, embedded approvals.

With digitizing, treasury has better control and visibility of the accounts payable process because, as each supplier is set up in the system, treasury has access to that supplier's data. Internal resistance was overcome via the support of senior management and the use of a project manager to coordinate with stakeholders, resulting in a successful implementation.

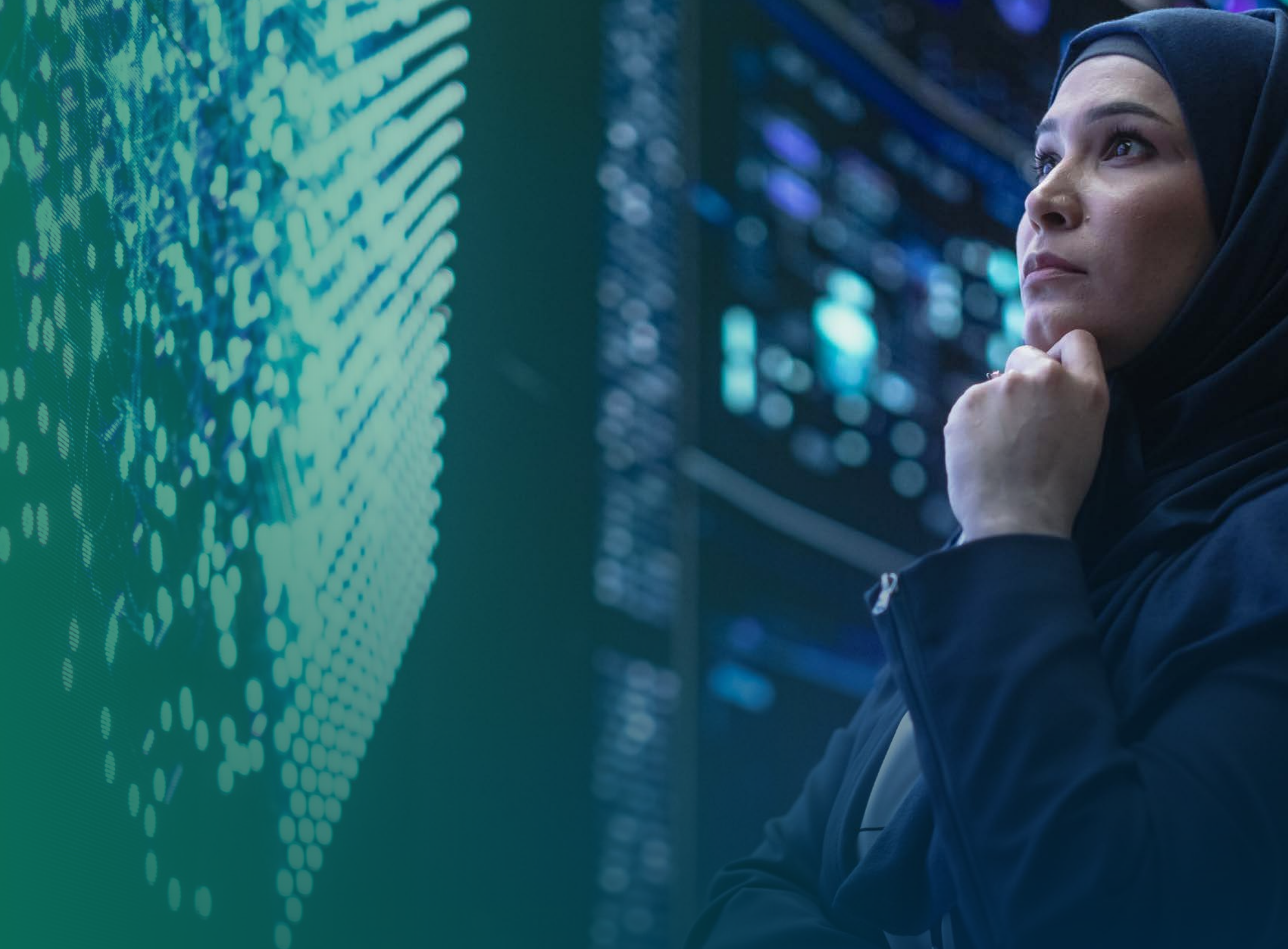
## Operating efficiently in uncertain conditions

While there are many internal reasons for embarking on change, often it can be the external environment, such as rapid inflation or uncertain regulation, which effectively frames the project. In such environments, maximizing the efficient use of cash and working capital remains a core objective for many companies, especially in the face of tough competition.

As a treasury practitioner based in Zimbabwe says, "To do so properly, we need to identify potential risk in the business and mitigate it. In Zimbabwe, the main risk we face is exchange rate volatility. The key to managing cash flow and working capital is being able to structure agreements to pay suppliers in foreign currency. We need to make sure cash doesn't stay in our operating currency for too long, as cash can depreciate in value within three to five days. This means we are very tight on monitoring cash, with central payments all subject to strict controls. In addition, in our industry, we are very dependent on fuel prices, which we manage via the use of derivatives."

**Adopting a scenario planning approach can be helpful for companies operating in a volatile environment.** Treasurers can anticipate various scenarios both from a market (e.g., a currency revaluation) and a regulatory (e.g., changes to exchange control rules) perspective and then plan how they would react in such situations.

As Ruta Jukneviciute, Executive Director, Structured Solutions Development at Standard Chartered, explains, "In many markets in Africa, there are limited opportunities to repatriate cash out of the country; if you don't plan in advance, you might not be able to respond quickly enough when a window of opportunity to repatriate cash opens. You should talk with your bank about your objectives, including interim hedging options; you will be able to execute effectively when an opportunity arises."



# THE ROLE OF TECHNOLOGY

The effective use of technology is central to the success of most treasury transformations. As an example, the automation of one or more manual processes is often the first deliberate step in a company's transformation journey and is one that is wholly reliant on the availability of appropriate technology. Another common project is the adoption of a dedicated treasury management platform, such as a TMS or the use of an ERP treasury management module, to replace the use of spreadsheets. In most cases, upgraded treasury technology can help to improve operational efficiency, offer scalability that supports a growing business, and exercise greater control and visibility over departmental activity.

The selection of suitable technology is vital. It can be a struggle to make the best fit between a new solution and existing technology. As Akhtar explains, "It is important to have transparent discussions with vendors. We need to be clear in terms of what we are asking for and what we are receiving as a solution, i.e., not just the technology itself but also pricing and customer support because the solution is a portfolio of different aspects. **The solution has to be flexible, scalable and durable.**"

Yet, even with the most suitable technology, the transformation may be difficult, with some potential hurdles in the way.

- Many organizations across the regions have complex intercompany relationships that may need to be unwound before the transformation can take shape.
- While some African countries are ahead of the curve in terms of digital opportunities (e.g., with relatively high adoption of APIs), the uptake of digitalization across the wider Middle East is slower, with manual processes still prevalent. The landscape means multinational companies typically find they cannot simply replicate a solution that they have in Europe, for example.
- Within the Middle East, the regulatory approach between different jurisdictions is quite different, with, for example, the UAE and Bahrain being more open than Saudi Arabia and Egypt. As Muhammed Ali Jehangir, Executive Director and Head of Cash Sales for Standard Chartered in UAE, explains, **"Each market has specific nuances**. The key is developing an understanding of local markets and how they are evolving. Banks work closely with regulators to understand the road map and advocate best practices that can help market development. In complex markets, it can help if the companies' treasury people engage the regulators as well."

**TREASURY TRANSFORMATION HURDLES**

- COMPLEX INTERCOMPANY RELATIONSHIPS
- SLOW UPTAKE OF DIGITALIZATION
- VARIED REGULATORY APPROACH WITHIN THE REGION

## Risk Management Solution

Setting up a treasury department from scratch, such as in a start-up company or as part of a divestment process, allows the treasurer to build a technology solution without the pressure of having to migrate away from embedded legacy systems. In start-ups, it is common for treasury to use ERP functionality initially, with some customized add-on solutions for treasury activities. As the business grows, **there is a need to become more efficient via automated processes and enhanced controls.**

The situation may be slightly different for a new company established via divestment or privatization. In these scenarios, executive management may have mapped out how the various finance functions would operate in the new business and defined a role for treasury. Depending on the nature of the new company, treasury may be designed to be fully operational from day one or to be built gradually as the new organization becomes established in its own right.

Allan Kyeyune, Head of Treasury and Financial Accounting, Uganda National Oil Company (UNOC), is looking to a TMS to provide the functionality to monitor, track and report an increased volume of trading activity as the company expands its trading business operations. To manage the increased risks associated with the expansion of the trading business, the treasury function at UNOC needs access to real-time market information, as well as the ability to set internal controls and apply a clear segregation of duties.

As Kyeyune says, "Starting with a fresh page gives us the opportunity to be very deliberate in our approach to technology and we are being very careful about putting in place the right solutions. The CFO is keen for us to do it right the first time. He wants to mitigate and manage risk, so we need the right systems for risk management. Our timing means we have the opportunity to get best-in-class technology."

**"Our timing means we have the opportunity to get best-in-class technology."**

# RETURN ON INVESTMENT

Because they involve change, transformation projects require, at a minimum, a degree of internal resources to achieve their objectives. Many require some capital expenditure as well, especially if they involve the deployment of new technology (rather than the extension of an existing solution). While it is difficult to quantify the benefits of improved controls (e.g., via a reduced risk of fraud), many projects identify improved operational efficiency as a core objective.

Achieving measurable improvements in efficiency can be difficult for a number of reasons. The group treasury manager from Saudi Arabia (see previous reference in the “Manage operational cost” section) reflects that “we had anticipated a 20% time saving” as a result of implementation in the first year but that this hasn’t yet materialized “largely because people have had to learn the new process.” The expectation is that these savings will start to be seen this year as employees will be familiar with the new process.

**Implementing a new technology solution can make a process scalable.** With manual processes, there is a limit to the extent to which an individual can become more efficient. In theory, automation provides a scalable solution that will expand as a company grows. Moreover, if set up correctly, a database integration can enable automated reconciliations as long as data is initially entered correctly and the system workflows are governed by relevant policies and procedures. On the flip side, there will not be a strong return on investment if new technology simply replaces a low-quality underlying process, and without manual intervention, it may make a bad process worse. Developing a robust set of automated workflows requires a significant investment of time in the planning stage of the project, which needs to be considered on both sides of any cost-benefit analysis.

## Building a narrative business case

Often, it can be a new hire that initiates a transformation project as they bring new ideas and a fresh perspective to the department. One example comes from Amir Khater, who joined a privately held holding group in Qatar as Chief Financial Officer about two years ago. He identified the absence of timely information and data as an inhibitor to calculating accurate cash positions across a group of companies. The established process took days to consolidate those positions; however, it “worked.”

In this case, getting budgetary approval can be difficult, especially for technology projects that aim to reduce risk. It can take some time to build a business case, as there are always other projects competing for investment funds. “Cost is always a driver. It is difficult to place a value on systems as there are many intangible benefits (e.g., reduced risk, better decision-making), so it is much easier to identify the return on investment on a building (the company is in construction). Valuing preventative actions is more like a type of insurance,” says Khater.

Following a series of meetings, and with a renewed focus on cash, shareholders approved the budget to implement a new treasury management system, one that will be focused primarily on cash and debt management. The implementation phase is expected to take between three and six months, and when implemented, it will automate the collation and analysis of live data from the group’s panel of approximately 15 banks.

**“It is difficult to place a value on systems as there are many intangible benefits.”**

# FREEING THE TREASURY TEAM TO ADD VALUE

One of the drivers of a treasury transformation project is to be more efficient, with fewer team members performing manual, especially repetitive, tasks. Automation can allow team members to be redeployed to other more value-adding tasks or lead to a reduction in headcount. Because of these potential impacts, treasurers need to consider carefully how to manage their teams before, during and after the project, especially if internal deployment opportunities are limited and job losses are likely.

By definition, **transformation projects create new process workflows and operating procedures**. To ensure the most value is achieved from the project, team members need to be trained both to follow the new procedures and to understand how to utilize any new data insights that the new workflows create. Training is important: While over half the respondents said that their staff was “significantly prepared” or “prepared” to manage the changes, two-thirds said that they need to “resort to skills acquisition to meet the needs of a treasury transformation.” “On-the-job training” and “mentoring and coaching” were seen as the most effective ways of developing the skills needed among the team to achieve a successful transformation.

For example, one benefit of automation is that it provides more opportunities to mobilize group cash. Aljabr Holding Co. arranges quarterly training in which all staff are involved “to ensure staff know how to get the best out of its new TMS,” explains Treasury Operations Manager Ahmed El Hady. In addition, the team has a monthly meeting to identify any issues with the system, which are then raised with the vendor to solve. For El Hady, it is important that the department can demonstrate how it adds value to the business. Through an efficient use of the new TMS, treasury helps management make better decisions.

# TAKEAWAYS

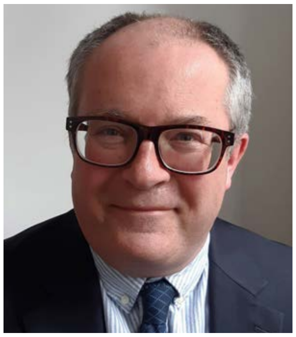
The focus of the survey was on the process of treasury transformation, such as setting objectives and identifying drivers of and barriers to success, rather than on the specific nature of individual transformation projects. Four points stand out:

- **Concentrate on your objectives for the project.** Discuss them internally, with your industry peers and with your trusted external advisers, including your banks. Many of your peers will be on the same journey — you can share experiences and the lessons you have all learned. Banks are usually in regular communication with the regulators in each of the markets in which they have a presence. They understand what is possible from a regulatory standpoint and what might change, and they bring the knowledge and experience gained from working with other clients on similar projects. They can help to create efficient solutions, given the complexity of the financial environment and regulatory landscape across the regions.
- **Map out new operating procedures, processes and workflows, especially if they are to be embedded in a new technology solution.** Simply automating an inefficient process will not solve any problems.
- **Focus on the treasury team.** Explain the purpose of the project and the vision for the future. Recognize they may be nervous about their own future roles. Identify what skills the team will need during and after the project implementation and provide appropriate training where necessary.
- **Meaningful evaluation of a project is difficult.** It should be possible to forecast the costs of a transformation project with a reasonable degree of accuracy by combining factors such as the time taken, the costs of a new system and consultants' fees. Itemizing the potential benefits is much harder, as many will be in the form of efficiency improvements and the reduced risk of error and fraud, so spending time with executive management and auditors to explain the qualitative benefits may help win support for the project.

## KEY LEARNINGS

- FOCUS ON OBJECTIVES
- MAP OUT NEW OPERATING PROCEDURES
- FOCUS ON THE TREASURY TEAM
- MEANINGFUL EVALUATION OF A PROJECT IS DIFFICULT

## About the Authors



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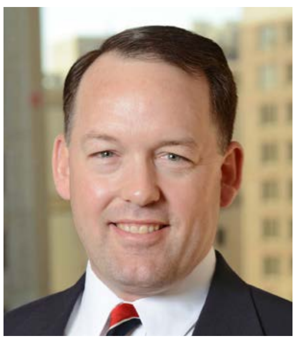
Guy Voizey has been a financial writer and editor for over 20 years. He is a director of WWCP Ltd, a research and publishing company, which specializes in the provision of information and editorial on corporate treasury and cash management. Guy wrote (or co-wrote) four books co-published by WWCP. In addition, Guy has also written over 20 executive and other guides for AFP, covering a range of topics, including liquidity management, cybersecurity, capital structure, taxation, and accounting. Guy edited the AFP's Essentials of Treasury Management (6th edition).



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