Managing risk in emerging markets
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Introduction

“With short and medium-term growth prospects in North America and Europe remaining relatively flat, corporations across a wide range of industries continue to look at emerging markets as their primary source of growth. Even though investors in China are no longer experiencing the same exhilaration as two or three years ago, growth rates still remain far higher (at a healthy 6-7 %) and with better short and medium term prospects than most developed markets.”

Richard Jaggard, Head of Transaction Banking Europe, Standard Chartered

Although OECD economies have their own challenges to contend with, not least how to stimulate growth and increase market confidence, many of these challenges are intensified in emerging markets that have a more complex and onerous regulatory framework, a less mature market infrastructure, and more compelling geopolitical challenges. The effect of global ‘headwinds’ can also be greater as these economies may be more fragile than those in North America and Europe. For example, while China’s slowdown in growth impacts on multinational corporations that have relied on China to compensate for sluggish growth in other markets, China’s more modest growth levels, a drop in Chinese overseas investment, the deterioration in its manufacturing sector and a reduction in consumption has far more severe implications for suppliers in lower-cost economies. Last year alone, Chinese investment in Africa fell by 84%, and while Chinese imports overall reduced by 13% between October 2014 – 15, the value of imports from Africa fell by 32% (source: Thomson Reuters Datastream). Some countries are particularly affected, with Angola, South Africa, Republic of Congo, Equatorial Guinea and Zambia accounting for more than 70% of all African exports to China.

China’s slowdown exacerbates the impact of low, volatile commodity prices, particularly oil and metals. This has hit commodity-producing emerging economies hard, with far-reaching implications across society, not least due to the drop in government income and difficulty in servicing their debt.

“The need to manage risk on a proactive basis in emerging markets is a new phenomenon for many companies.”

Richard Gibson
Executive Director, Financial Markets - Corporate Sales, Standard Chartered

“The need to manage risk on a proactive basis in emerging markets is a new phenomenon for many companies. When they first entered markets such as Nigeria and other heavily commodity-dependent countries, profits were high and hedging risk was not a priority. Today, the situation is quite different, with high levels of volatility, fast-changing regulations, and a key focus on hedging risk and repatriating cash.”

Richard Gibson, Executive Director, Financial Markets - Corporate Sales, Standard Chartered
This report summarises some of the most urgent risk priorities in emerging markets amongst multinational corporations, including North American and European businesses, and those headquartered in developed and emerging countries of Asia, namely foreign exchange (FX) risk; regulatory and compliance risk, and credit and supply chain risk. Traditionally, there has been a difference in treasury and risk management sophistication between longer-established corporations and Asian, Middle Eastern and African regional champions that have pursued their international growth strategy more recently; however, this is changing as competitive and market pressures mount.

“The gap between foreign multinationals and regional champions is narrowing as larger African companies adopt more efficient processes and technology. As employees move between organisations, there is greater cross-pollination of ideas and expertise on maximising efficiency and reducing costs.”

Philip Panaino, Regional Head, Transaction Banking, Africa, Standard Chartered
Beyond risk categories

This report discusses ‘developing’ and ‘emerging’ markets as a way of distinguishing between their risk characteristics, but it is accepted that this terminology is arguably outdated and overly broad, given the diversity of the 156 countries described as emerging or developing countries by the IMF. However, given the lack of universally accepted alternatives, these terms are used for simplicity.

Traditionally, a ‘developed’ country refers to high income countries, but also includes openness to foreign ownership, ease of capital movement, and efficiency of market institutions, which are more likely to be lacking in lower-income, developing countries.

“Despite the fact that China is the second largest economy in the world, and 14 of the top 30 exporters in the world are ‘developing’ markets, there is still a clear distinction in most people’s minds about which are ‘developed’ and which are ‘developing’ markets, and therefore too, a distinction in the way that risk is managed. The reality is that all markets, however they are categorised, have particular characteristics and challenges which need to be considered carefully when defining and delivering on a risk strategy.”

Richard Gibson, Standard Chartered

As with developed markets, however, it is not realistic to assume that every ‘developing’ country has the same risk profile. For example, how should China be categorised from a risk perspective? In some respects, it shares characteristics of some other emerging markets in that some foreign businesses may find it difficult to conduct their business there, where the regulatory environment is complex and constantly evolving. On the other hand, the tools available to treasurers to manage risk in China are more consistent with those in developed markets, with the ability to trade RMB on- or offshore, and hedge both interest rate and currency risk with a choice of financial instruments.

The reality is that it has never been more important than it is today for corporations to take a specific and proactive view of risk in each market in which they operate. This should not result in a fragmented approach to risk: rather, by taking a global view based on realistic insights into each market, treasurers are better able to identify natural hedges and balance cash, liquidity and risk across the enterprise.
# Sample risk characteristics in emerging markets

<table>
<thead>
<tr>
<th>Category</th>
<th>Characteristics</th>
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| **Foreign exchange** | • Currency may be non-convertible  
                        • Conversion may only be possible locally with a restricted number of counterparties  
                        • It may not be possible to transfer the currency cross-border  
                        • Lack of hedging instruments available to hedge currency risk |
| **Liquidity**     | • Lack of, or day-to-day variations in, market liquidity, particularly in USD  
                        • Few financing options, particularly in foreign currency  
                        • Controls on cross-border transfer of funds, whether local or foreign currency, leading to ‘trapped’ cash |
| **Payments/collections** | • Heavy reliance on cash, leading to security concerns, high transport costs, risk of fraud and lack of transparency  
                        • Use of manual payment instruments such as cheques, with long settlement timescales, high transport and processing costs and time-consuming reconciliation to approximately 25–30 European focused private equity funds with an emphasis on mid-market buyouts in Northern Europe |
| **Regulatory**    | • Fast-changing regulations, with regulators either tightening or liberalising rules to maintain economic stability  
                        • More bureaucratic regulatory processes, with fewer online electronic tax filing and payment, and customs systems, increasing administration and processing time  
                        • Increasing compliance burden is prompting bank exits from more sensitive markets, reducing market access  
                        • Payment screening creating significant administrative overheads and may interrupt genuine business transactions |
| **Operational**   | • Higher risk of error, fraud and corruption where there is a lack of central oversight and systems  
                        • More bureaucratic government reporting obligations  
                        • Wide variations in the efficiency of public institutions |
| **Credit**        | • Less publicly available credit information with less established credit bureaux  
                        • Higher proportion of unbanked individuals and small businesses making it difficult to establish a credit history |
| **Supply chain**  | • Extended, complex and intertwined supply chains lead to lack of visibility across supply chains  
                        • Inefficient payment/collection methods and lack of remittance information can lead to delays both in the exchange of goods and cash, and also reconciliation and account posting  
                        • Few banks are able to take a holistic view across a company’s entire supplier and customer community, including all of the relevant intermediaries, collectively referred to as the ecosystem. This makes it difficult to implement financing and risk solutions that increase resilience and facilitate growth. |
“Working together is essential: it is not our role in treasury to dictate business decisions, but we can identify, escalate and seek to mitigate issues, potentially in ways that business unit leaders may not have considered.”

Marie-Astrid Dubois
Assistant Treasurer, Honeywell
Foreign exchange risk

Managing FX risk in emerging markets brings particular challenges, not least due to currency and capital controls that can restrict a company’s ability to convert local currency balances, transfer funds cross-border, and manage currency exposures offshore. As financial markets in these countries are often less deep or mature as some developed countries, hedging opportunities may be limited.

“In many countries in sub-Saharan Africa, plus countries such as Egypt and Ukraine, there is only limited opportunity to hedge risk. In Nigeria, for example, there was a long period during which treasurers struggled to hedge their currency risk, exacerbated by market volatility and lack of market depth since the NGN was unpegged from USD early this year.”

Richard Gibson, Standard Chartered

These issues have a significant impact on strategy, not least the level at which corporations are willing to invest in countries where the results of these investments cannot be converted into direct shareholder value, although many take a longer term view. Treasurers need to help business unit management teams consider issues such as the ability to contract with suppliers and customers in foreign rather than local currency, and the potential to use local currency revenues to pay suppliers and employees. Treasurers must also consider whether local treasury representation may be required, even if these representatives are part of a global treasury organisation.

“We try to apply global policies wherever possible and work with our banks to identify potential issues – which are common – and devise possible solutions. Having highlighted challenges, such as currency or capital controls, low market liquidity or high volatility, we bring together the relevant stakeholders to decide on how we tackle these issues. Working together is essential: it is not our role in treasury to dictate business decisions, but we can identify, escalate and seek to mitigate issues, potentially in ways that business unit leaders may not have considered.”

Marie-Astrid Dubois, Assistant Treasurer, Honeywell

Treasurers are already accustomed to managing FX in OECD countries, and the principles and practices are broadly similar in emerging market currencies. However, there are some wider considerations beyond the currency and capital controls already highlighted. First is the high level of volatility, which may suggest that a different approach to hedging is required in some cases. All ten of the world’s most volatile currencies are from Africa and Latin America, but while volatility is often very high, treasurers often have fewer hedging instruments available to them.
“In this environment, treasurers need flexibility in the way that they manage risk, both in developed and emerging markets. Many treasurers and treasury committees review policy once a year, but this may no longer be sufficient to protect the business as markets move. A treasury policy may stipulate a yield threshold for hedging risk in some emerging market currencies which is not attainable, so treasurers need the ability to review and challenge treasury policies continually. This is an area in which Standard Chartered provides tools and data to support ongoing analysis, which has proven very valuable in making both proactive and reactive hedging decisions.”

Richard Gibson, Standard Chartered

One area that treasurers and treasury committees need to consider, for example, is the use of currency options. These have disappeared from many corporations’ treasury policies in recent years, but this is a decision worth revisiting for currencies where an options market exists. Options play a valuable role in reducing the impact of volatility and the net effect of loss or risk in the event of significant market movements in a way that forward contracts cannot.

The cost of hedging has also become a more important consideration. For example, a company may be generating profits of 30 percent but if hedging costs are 35 percent, the strategy may be to leave certain risks unhedged; however, the levels will vary for each organisation and in each country. Managing risks offshore can be a useful way of maintaining flexibility and control over liquidity and risk, but there can be significant differences in hedging costs between the onshore and offshore markets.

One way in which Standard Chartered is helping treasurers manage hedging costs, particularly in markets where there is little surplus cash or when this is not held by treasury, is to take a more integrated approach to cash and risk. This has a variety of implications. For example, a company may deposit funds with Standard Chartered’s local branch in a country where it is difficult or expensive to convert or repatriate funds. These funds can then be used to make corresponding loans to other group entities. In another instance, if a client deposits cash in a one country, the return on this deposit could be used to offset the cost of hedging in another.
“This global, integrated approach is particularly timely given the focus on increasing the return on cash in developed markets where interest rates are low or even negative, while at the same time, the capital charge related to the risk of assets in some emerging markets is increasing. By linking the two, therefore, a symbiotic relationship emerges between managing risk and return in developing and emerging markets.”

Daniel Barnao, Managing Director, Financial Markets - Corporate Sales, Standard Chartered

While managing FX risk in emerging markets can be challenging, leading treasurers are managing these risks as part of a global strategy, and implementing industry best practices. These include centralising FX risk management wherever possible, and ensuring process and pricing integrity by using online dealing portals to obtain competitive quotes and integrating deal information into the treasury management system (TMS) or enterprise resource planning (ERP) platform.

“We centralise our foreign exchange activities at our Rome-based headquarters wherever possible. XAF is a particularly important currency for WFP, and although we conduct around USD 600m in FX transactions each year across 32 countries, XAF accounts for around one third of this total value. As the margins can be quite high on exotic currencies, we need to seek competitive bids on each of our transactions, although in reality there is usually a limited number of banks that are able to offer the best price for each currency pair.”
We therefore implemented independent trading portal 360T to allow us to invite bids from all twelve of our FX banks for each transaction. This means that we have a transparent and auditable process, allowing us to reduce our FX costs whilst providing feedback on banks’ success rate in winning bids, and demonstrating what they would need to do to win the business.

This approach is not feasible for every currency, such as the Ethiopian Birr and Sudanese Pound, for which we need to exchange in-country with local banks, making sure that we comply with regulations via our local offices.”

Robert van der Zee
Treasurer & Deputy Director of Finance, United Nations World Food Programme

Risk management tips: FX

• Work closely with local business units to understand current and potential risks.

• Similarly, liaise with business unit management and internal audit to ensure that FX risk practices, such as competitive bidding, segregation of duties and transaction management are consistent with group treasury policy if these are not transacted centrally.

• Review treasury policies on an ongoing basis, rather than annually / at defined intervals.

• Where feasible, consider the use of hedging instruments that are particularly designed to manage higher currency volatility.

• Work with trusted partner banks to identify alternative approaches to managing risk and liquidity at a country, regional and global level.
Regulatory and compliance risk

“Societies need regulation—and businesses, as part of society, are no exception. Without the rules that underpin their establishment, operation and dissolution, modern businesses cannot exist. And where markets left to themselves would produce poor outcomes, well designed regulation can ensure outcomes that are socially optimal and likely to leave everyone better off.”


While regulation is essential and indeed desirable, this will come as little comfort to treasurers struggling to keep up with rapidly changing regulatory requirements while ensuring that organisational structures, cash management and financing tools, and financial administration are compliant with these requirements.

Not only is the regulatory environment in emerging markets typically more challenging to navigate than developed markets, but the diversity and level of regulatory maturity across countries within a region is also greater, as the following graphs from the World Bank’s Doing Business 2016 report illustrate.

**Big gaps between the highest and lowest distance to frontier scores in some regions**

![Graph showing distance to frontier scores by region](image)

Source: Doing Business database.

The biggest gaps between regulatory efficiency and regulatory quality are in the Middle East and North Africa

![Graph showing average distance to frontier scores](image)

Source: Doing Business database. Note: The distance to frontier score for regulatory efficiency is the aggregate score for the procedures (where applicable), time and cost indicators from the following indicator sets: starting a business (also including the minimum capital requirement indicator), dealing with construction permits, getting electricity, registering property, paying taxes, trading across borders, enforcing contracts and resolving insolvency. The distance to frontier score for regulatory quality is the aggregate score for getting credit and protecting minority investors as well as the regulatory quality indices from the indicator sets on dealing with construction permits, getting electricity, registering property, enforcing contracts and resolving insolvency.
Countries in the emerging markets of Latin America, Asia and Africa are also the least likely to have implemented online systems for regulatory processes, electronic tax filing and payment, and customs systems, leading to higher operational risk and administrative overheads.

However, this is changing. In the Middle East, for example, Abu Dhabi Customs has implemented a highly successful e-Clearance system. As a result, Customs has converted manual and time consuming processes into an entirely electronic process, eliminating paper and cash and dramatically reduced customs processing from hours or days to almost zero for 90% of transactions. This follows a project of only six months across all 14 customs centres. This project has the potential to become a global blueprint, demonstrating the progress that can be made quickly to improve governance, financial and process efficiency, and boost competitiveness as a global trading location. Furthermore, as the World Bank’s Doing Business 2016 report observes, countries in South Asia and sub-Saharan Africa are demonstrating the greatest progress in implementing governance reforms, with Uganda, Kenya and Senegal amongst the top 10 improvers. As the report emphasises, however,

“About 71% of these reforms were aimed at reducing the complexity and cost of regulatory processes, while the rest were focused on strengthening legal institutions. This... reflects the greater difficulty of implementing legal reforms and the time required to change the way that legal institutions function.”

Market access
It is not just corporate treasurers that have compliance obligations: banks face increasingly onerous compliance requirements, which in turn impact on their ability to meet client needs.

“There is growing evidence that the need for more stringent regulation on one hand, and the cost and risk of compliance with these regulations on the other is resulting in some banks choosing to reduce their correspondent banking activities from specific client segments or entire markets. This particularly applies to regions where banks perceive the potential risks and costs of associated controls to outweigh the value, with the Caribbean, East Asia Pacific, Eastern Europe and Central Asia most affected.”

David Howes, Deputy Head, Group Financial Crime Compliance, Standard Chartered

The unintended consequence is that organisations operating in affected countries are having to find alternative banking partners, often at short notice, while local banks with which they work also find it difficult to find alternative correspondent banks.

“A growing challenge is that banks are becoming more reluctant to operate in emerging markets given the regulatory pressures to which they are subject, particularly countries on which sanctions have been imposed. Bank exits from markets that are often already sparsely banked make it more difficult to retain access to and from these markets, and therefore to fulfil our food assistance objectives.”

Robert van der Zee, UN World Food Programme

Robert van der Zee continues,

“Local and regional banks, and remittance providers, are finding it more difficult, and potentially impossible to access international services. This in turn affects cross-border payments and collections and trade finance, endangering already fragile trade and posing a threat to financial inclusion.”
As the World Bank also notes,

"Without access to international markets, developing economies must produce (these) goods themselves and at a higher cost, which pulls resources away from areas where they hold a comparative advantage. In addition, low income per capita limits domestic opportunities for economies of scale. A trade regime that permits low-cost producers to expand their output well beyond local demand can therefore boost business opportunities. Thus, while international trade can benefit developed and developing economies alike, trade policy is clearly inseparable from development policy."


Banks’ compliance challenge on one hand, and the challenges that countries face in maintaining their regulatory and supervisory frameworks in line with international standards, particularly in areas such as anti-money laundering and anti-terrorism finance compliance, has not gone unnoticed by international bodies such as the IMF, Financial Stability Board and Basel Committee for Banking Supervision. These bodies are actively working in this area to provide greater clarity and consistency, and maintain market access for more vulnerable countries. However, banks also have a key role to play by recognising the wider implications of their decision to exit specific markets or activities.

“At Standard Chartered, we take our responsibility for effectively managing financial crime risk very seriously. We are also committed to facilitating global trade, supporting growth in emerging markets and promoting access to global markets. Aligning these ambitions, we have therefore developed a strategy for correspondent banking we call ‘de-risking through education’, focusing increasingly on how we partner with those clients who have the right intent but not yet the right tools or experience to build robust controls for financial crime risks. For example, we are actively promoting training and workshops for our clients, as well as continuing to invest in due diligence and oversight.”

David Howes, Standard Chartered
Key tips: regulatory and compliance risk

• Work with trusted partner banks to understand changing regulations in markets in which you operate. This includes understanding the future ‘direction of travel’ i.e. whether a market is tightening or liberalising regulations according to its economic objectives.

• Evaluate your partner bank relationships in each country to evaluate your risk in the event of a bank exit. Ensure that you have alternative banks to whom you could transfer business quickly if necessary.

• Make use of bank-agnostic communication channels such as SWIFT to accelerate the switch to alternative banks to avoid interruption to banking services and therefore the wider business.

• While in some cases, regulatory processes such as tax payments need to be done locally, ensure that there is sufficient regional or global oversight to standardise processes and controls wherever possible.
The decision to adopt SWIFT is relatively uncommon amongst organisations with significant emerging market activity. We recognised, however, that although it would be more difficult to implement SWIFT in some countries than others, we estimated that we would be able to connect 60% of our offices to partner banks (although this is proving to be slightly higher), but this would equate to around 90% of our total volumes. We have now rolled out the solution to 35 operations, amounting to 66% of our flows, and while there are challenges with file formatting in some countries with a less developed payment infrastructure, it has been worth spending the time to resolve this rather than reverting to proprietary electronic banking systems.

Local supplier and employee payments take place at country operation level but using the same SAP-based processes, including dual signatories etc. We use cheques and physical cash only where this is absolutely necessary, and there is a strong emphasis on migrating to electronic payments. In some countries, such as Uganda, implementing automated processes and electronic payments represented a major cultural and operational change, as around 80% of payments had previously been made via cheque, but we have continued to provide education and support to articulate the benefits of electronic payments. There are some countries such as South Sudan and Ethiopia where it will not be feasible to implement electronic payments with international banks via SWIFT in the foreseeable future, but we will continue to review this as opportunities arise.

Robert van der Zee
UN World Food Programme
“No longer can banks simply operate on a bilateral basis with their clients, but they need to be facilitators of global trade and growth, facilitating relationships between clients, their suppliers, customers and distributors”

Richard Jaggard
Standard Chartered
Credit and supply chain risk

Evaluating and managing risk to both financial and commercial counterparties is one of treasurers’ and finance managers’ biggest challenges in emerging markets, particularly those where public information is less widely available.

Bank risk
Bank risk has become a more significant issue in recent years given that many international banks have been obliged to review their geographic footprint. However, this is one element of treasury departments’ wider obligation to evaluate and monitor bank risk. This is typically easier in developed markets where i) banks are typically rated, which provides one level of validation and ii) the exposure to a bank is usually easier to quantify, particularly in more centralised treasury organisations where treasury has visibility over bank balances and outstanding treasury and trade instruments. In emerging markets where local banks may be unrated, and where treasury may lack the same degree of visibility and day-to-day control over banking relationships, this can be more difficult.

While corporations and other international organisations have different ways of doing monitoring bank credit risk, partnerships with trusted international banking partners play an essential role.

“Relationships with our core banking partners – and the concept of ‘partnership’ is one we take very seriously – are key in helping to understand and manage risk in every country in which we do business, but the value of these partnerships is accentuated even further in more challenging markets.”

Marie-Astrid Dubois
Honeywell

When we enter a new market, whether it is a country in which we can work with one of our core banks or a reputable local bank, we are proactive in exploring all the relevant implications of doing business in that country. We raise any concerns, identifies challenges and opportunities, and shares this information with tax, legal, and the business unit leaders. Working closely with the business unit itself, and spending considerable time there, is essential in supporting the local leadership effectively based on an accurate view of risk and operational requirements. This is essential from a strategic point of view: Russia, for example, is now a major market for us with considerable future growth opportunities.”

Marie-Astrid Dubois, Honeywell
Even in more decentralised organisations, and despite the challenges of language and culture in some cases, it is essential that treasury takes an active role in evaluating, contracting and monitoring local bank relationships. Furthermore, as a wider range of entities become involved in delivering financial services, such as telecom and ‘fintech’ companies, identifying these risks can become more complex.

“We maintain bank relationships centrally as far as possible in order to manage our counterparty risk effectively, and 90% of our balances are with banks have a credit rating of A- or better. Inevitably, we need to work with local banks (that are often unrated) where no international banks are present. In these cases, we continue to review the bank’s credit quality and correspondent banking relationships to ensure security and mobility of funds, either ourselves or in collaboration with other UN agencies.

This is a complex process given the importance of cash management to support our in-country operations to deliver food assistance. We use bank balances to pay employees and suppliers, but also to pay beneficiaries through cash-based transfers, such as mobile money and prepaid card solutions. Cash-based transfers are convenient, cost-effective and secure ways of ensuring that funds reach beneficiaries quickly, but there are important details to consider. For example, an individual using mobile money will have a ‘virtual’ account with a telecom company (mobile network operator), but this is funded through a bank. National regulations vary as to whether these funds are segregated, and what the recourse is, so we consider these issues vary carefully both from the point of view of counterparty risk and monitoring and reconciling food assistance distribution.

Ultimately, around 95% of our counterparty risk is easy to assess, but the remaining 5% is far more complex. Sometimes, in the absence of ways to mitigate risk, we simply have to accept it, but it is important to understand the risks to which we are subject and minimise these as far as possible. Some of these risks are not immediately visible, such as risk on performance bonds and guarantees, for example to support construction projects. We rely on contractors to come up with guarantees, but we also need to assess the risk to the banks providing them, so we are currently engaged in a project to map these risks more precisely and centralise information flows as far as possible.”

Robert van der Zee, United Nations World Food Programme
Commercial credit and supply chain risk

While monitoring bank risk may be challenging in emerging markets, evaluating and managing risk to commercial counterparties is even more complex. Treasurers approach this in different ways.

“In more developed markets, where credit bureaus are well-established and credit data is widely available, it is easier to identify and manage credit risk, but in many less-developed markets, these organisations may not exist, or be at an early stage of development. As a result, treasurers and finance managers need to take a different approach to credit risk in these markets, leveraging insight from their banks and analysis tools such as predictive analytics, leveraging both internal and external data.”

Farooq Siddiqi, Global Head of Product Management, Standard Chartered

Treasurers, finance managers and local business managers make use of trade finance instruments to help manage their risk but increasingly, treasurers are working with their partner banks to leverage relationships and intelligence across the ecosystem to understand and help to manage risk to customers, distributors and suppliers. This relies on a partner bank having relationships and insight across the ecosystem, but there are only a few banks in a position to offer this.

“No longer can banks simply operate on a bilateral basis with their clients, but they need to be facilitators of global trade and growth, facilitating relationships between clients, their suppliers, customers and distributors.”

Richard Jaggard, Standard Chartered

Most international banks work only with large multinational corporations outside their home markets, and therefore do not have direct knowledge of, or relationships with, local suppliers; therefore, they do not have the coverage, capacity or credit appetite to provide financing to them. Those that do often support different sizes of customers through specific business segments, such as corporate and institutional banking for large corporate clients, and commercial and retail banking for smaller suppliers and their employees. While local banks are more likely to have relationships with smaller and mid-sized companies, engaging multiple banks, particularly if these are not the corporation’s partner banks, results in a loss of visibility over the wider ecosystem, and an inability to identify and manage risk.

There are challenges too in streamlining the payment and collection transactions that fuel the ecosystem. While most corporations can pay and receive cash to/or from larger suppliers, for customers and intermediaries using electronic payment methods through
international banks, these banks typically lack the reach and depth of in-country solutions to support the wider range of payment methods that are required to pay and receive cash from smaller companies and individuals. Conversely, local banks can support local payment methods, but often lack the technology to allow corporations either to make payments across different methods through a single channel, or to provide central visibility over collections e.g. for reconciliation and account posting purposes.

Efficient collection methods play a key role in minimising customer and distributor risk while accelerating the flow of goods and services.

“As companies adapt their distribution and sales models, the credit and working capital dynamics change. If a distributor’s credit line is fully utilized, which is often the result of delays in receiving funds from dealers, agents or retailers, they cannot do more business, which in turn hampers growth. However, by easing the working capital burden of the distributor, and therefore facilitating more business, whilst also encouraging the use of more efficient payment and collection methods across the supply chain, companies can accelerate the financial supply chain, and therefore also the physical supply chain.”

Victor Penna, Head, Transaction Banking Network Sales & Treasury, Standard Chartered

Cash and manual payment instruments such as cheques are widely used in many emerging markets, which are in turn associated with high transport costs, security issues, poor value dating and delays in crediting customer credit limits. However, there are a wide range of payment and collection tools that are now becoming more popular, and in many cases, adoption is led by the emerging markets.

“Africa is leading the way in leveraging digital solutions to increase financial inclusion, and enable more efficient and secure ways of doing business. No other region has proved as adept at leapfrogging legacy financial and trading models and technology to create demonstrable value to its residents and businesses.”

Namita Lal, Managing Director, Head of Mobile Money, Standard Chartered

A key example is mobile wallets: virtual wallets held on a mobile phone that can be preloaded (‘stored value’) using a mobile phone account rather than a bank account, and used to buy goods and services through participating merchants (whether bricks-and-mortar or online) as an alternative to using cash. Originally, mobile wallets were used for small value items, but as their popularity has grown, both amongst payers and receivers of cash, the value that can be transacted through mobile wallets has also increased.
Mobile wallet solutions have a major role to play in accelerating, streamlining and digitising collections from both individuals and small businesses. It also allows automatic reconciliation of customer accounts using information held on the mobile payment.

While the best-known mobile wallet scheme is M-PESA, which was originally launched in Kenya in 2007, it has since expanded into other parts of sub-Saharan Africa, such as Tanzania, Democratic Republic of Congo, South Africa, Mozambique, Lesotho and beyond. Other schemes have also emerged in countries such as Nigeria, Uganda, Rwanda and Zambia. It is not only in Africa where mobile wallets are proliferating: in China, for example, around half of China's internet users made payments through their mobile devices last year, and mobile payment transactions more than doubled in 2015 to £235 billion (source: Euromonitor International).

"At Standard Chartered, we are uniquely equipped to drive a new generation of banking that encompasses the entire ecosystem rather than simply single points in the supply chain. We have repositioned our organisational model to bring together our corporate & institutional and commercial/retail divisions so that we can engage not only with larger customers, but their wider supplier ecosystem, on an integrated basis. By taking an ecosystem-wide approach (not only to financing, but also services such as payments and collections), these obstacles to growth are removed, allowing the bank to go beyond traditional post-shipment finance to offer best fit banking solutions.”

Alex Manson, Global Head of Transaction Banking, Standard Chartered

**Key tips: Credit and supply chain risk**

- Work with trusted partner banks that have insight into the wider supplier and customer ecosystem, and can offer bespoke financing and credit solutions.

- Look at data that is available internally, from partner banks, or more widely to develop insights and provide predictive analysis of customer and supplier behaviour to shape credit and commercial decisions.

- Consider where delays in the financial supply chain currently occur, and how these could be resolved, such as financing a distributor’s working capital needs, or introducing more efficient payment and collection methods.

- Centralise credit and collection monitoring wherever possible to build a global risk picture and establish common processes and controls.
“At Standard Chartered, we are uniquely equipped to drive a new generation of banking that encompasses the entire ecosystem rather than simply single points in the supply chain.”

Alex Manson
Global Head of Transaction Banking, Standard Chartered
Best practices in emerging market risk management

There is no ‘right answer’ when it comes to managing risks in either developed or emerging markets, given the diversity of each organisation’s risk profile and appetite, its corporate lifecycle in each country and wider corporate structure and culture.

“Clients’ banking needs in each market will inevitably vary depending on the maturity of their operations, and whether they are in an investment phase or generating revenues. In many cases, Asian multinationals have pursued their international growth strategy more recently than those headquartered in North America or Europe, so they may be grappling with the challenges of expanding into new markets, such as understanding the risk environment, regulations and tax, business and retail culture, and currency and capital controls that may impact on cross-border flows.”

Richard Jaggard, Standard Chartered

However, discussions with leading treasurers reveal three common factors in optimising risk management in emerging markets: i) trusted bank relationships; ii) treasury centralisation, and iii) innovation. Corporations need support from trusted banking partners at every point in their corporate lifecycle in a country, and this is typically more important in emerging markets where the regulatory, market and risk environment is more complex and challenging.

“As corporations expand internationally, often into less familiar markets, they rely on Standard Chartered’s wealth of experience and depth of local knowledge to help understand and manage the distinct risk characteristics of each market within an integrated risk framework.”

Farooq Siddiqi, Standard Chartered

Centralisation

The benefits of centralising finance and treasury processes into regional and global treasury centres, in-house banks and shared service centres are widely documented and well-accepted. For many organisations, adopting a centralised approach to cash, treasury and risk management allows them to build a framework for managing liquidity and risk at a group level, establish common processes and controls, and build an integrated technology infrastructure. In emerging markets in particular, however, there is often a need to locate treasury professionals (either as a distinct function or as part of a local finance team) in-country to provide on-the-ground support in managing local exposures, and conducting local financing and cash management. This is particularly
the case for strategically important countries, and/or those in which the corporation has a market leadership position, and can therefore have a greater influence on market practices and regulations by working with local banks and regulators directly.

“We have a centralised treasury infrastructure at Honeywell, and although we have local teams in some parts of the world, these are part of a single treasury organisation. While it is preferable to centralise personnel wherever possible to maintain a central hub both in terms of operations and expertise, there are situations where we can provide better support to the business and manage risk more effectively by locating treasury professionals in the relevant market.”

Marie Astrid Dubois, Honeywell

**Innovation**

As digital innovation challenges existing business models and creates new opportunities in international trade, treasurers and finance managers need to consider how emerging solutions can help them to manage their risks in emerging markets. This includes bespoke risk, financing and liquidity solutions from their partner banks, and also support for new business models that integrate traditional and e-commerce business models and facilitate competitive, responsive supply chains. These include new payment and collection methods, as well as technologies such as predictive analytics using ‘big data’ that will become more important in evaluating risk in markets where credit data is less widely available.

“In an era of robotics and machine-based learning, technology will have a growing role to play in helping corporations manage their risk in emerging markets. This extends beyond familiar ERP and TMS into risk tools that provide predictive analytics and leverage ‘big data’ i.e. internally sourced data from across the business, public data and external data sourced from third parties such as banks to create bespoke intelligence to drive risk decisions.”

Farooq Siddiqi, Standard Chartered
We have not yet witnessed a fraction of the potential that innovative technology will deliver in the coming years, and these technologies are likely to have the greatest uptake in emerging markets which lack the ‘legacy’ systems and processes as developed markets. For example, trade finance digitisation and automation, supply chain financing platforms, electronic tax and customs systems will play a vital role in providing greater control over supply chain risks and costs, and there is growing motivation to develop these capabilities.

“Corporations are looking for a single conduit to their suppliers based on common, open standards, through which they can nominate suppliers to finance, or who can nominate themselves, with the bank as facilitator. By using standardised technology, if a company buying from Taiwan switches to a supplier in Vietnam or Bangladesh, the process should be seamless.”

Richard Jaggard, Standard Chartered

Similarly, innovative payment and collection methods, such as mobile wallets, are also proving instrumental in achieving development objectives, increasing financial inclusion and reducing poverty. These will continue to play a vital role in increasing visibility and control over risks, and facilitating more efficient business models.

“While Africa has some unique characteristics that enhance the value proposition for mobile money solutions, some of the successes that have already been achieved, and those that are underway, form a blueprint for other regions. For example, we support mobile wallet solutions in many parts of Asia, including China, where there are large rural populations, low rates of financial inclusion, or simply a demand for efficient, convenient mobile wallet or other mobile-based financial services. As a bank with a strong, long-term commitment to Africa and Asia, we recognise the unique ability that digitisation, from basic mobile wallet solutions to highly sophisticated digital supply chain solutions, has to increase economic engagement, facilitate efficient business models and ultimately fuel economic growth.”

Namita Lal, Standard Chartered
Collaboration

Collaboration is critical to understanding, monitoring and mitigating risks in emerging markets, particularly as both external and internal information through market information systems and ERPs may be more limited than in well-established markets. This collaboration takes a variety of forms, such as: between corporations, their banks and the wider commercial ecosystem; between banks, and between banks and regulators. For example, treasurers should:

- Work closely with business units, and other central departments, to understand the business strategy, market, legal and regulatory environment and associated risks;

- Engage with trusted banks to understand the changing environment, and the opportunities that exist both to manage risk and facilitate growth, which will often differ across markets;

- Collaborate with banks, business unit management and regulators to participate in pilot projects (such as in China) for new regulatory initiatives where these have a significant impact on the business;

- Encourage banks to co-operate to agree common standards and platforms to increase visibility and consistency of transactions and information flows, and harmonise compliance requirements such as KYC;

- Work with business unit management, procurement, sales and partner banks to develop a picture of the commercial ecosystem to understand risks and delays, and collaborate to find ways of overcoming these risks, accelerating the supply chain, and create competitive advantage.
### Sharing advice

**Marie Astrid Dubois.** Honeywell

Identify risks upfront, rather than reactively.

Stay close to the business and demonstrate how treasury can help them to achieve their objectives, rather than adding a layer of bureaucracy. In particular, it is important to engage before entering new markets.

Work together with other business functions, both centrally and locally, and identify how and when each of these needs to be engaged. Collaboration to share skills, expertise and insights is very important when operating in more challenging markets.

Leverage global bank relationships, and work with them to identify and evaluate local banks when necessary. If you have the right banking partners, they will have valuable insights into the regulatory, market and cultural context in each country, so look at how they can help.

Integrate each new business operation into the existing treasury infrastructure wherever possible. As a minimum, standardise policies and processes, including controls and technology infrastructure as far as possible.

Establish mechanisms to limit the build up of cash in a country as early as possible, and make sure that treasury has a reliable means of maintaining visibility over this cash.
CASE STUDY

Emerging markets strategy in practice

Developing our business in a sustainable way in high growth regions is a key priority for Honeywell, which is reflected in our management structure.

For example, we have a president with specific responsibility for developing our business in Asia, Africa and the Middle East which requires a slightly different approach to markets in which our business is more established. As an organisation that is already present in more than 100 markets, we are constantly extending our boundaries into new countries, most recently Mozambique and some of the “-stan” countries in central Asia. These are challenging markets, not least because they are not yet well-banked, with a relatively undeveloped financial and regulatory infrastructure. Doing business in countries such as Russia that are subject to sanctions also present difficulties, with considerable regulatory and compliance risks that we need to consider, so we engage in an ongoing dialogue with our banks to determine what is permissible.

Relationships with our core banking partners – and the concept of ‘partnership’ is one we take very seriously – are key in helping to understand and manage risk in every country in which we do business, but the value of these partnerships is accentuated even further in more challenging markets. Inevitably, there are some markets in which none of our core banks – or even any western banks - are present, such as Uzbekistan. In these situations, we work with trusted banks such as Standard Chartered to find out who their local partner banks are in the relevant country, and work with both our own banks and consultants with local expertise to conduct the necessary due diligence and share market intelligence from a risk and operational standpoint. This is not always easy to do in practice, particularly where local banks do not conduct business in English.

When we enter a new market, whether it is a country in which we can work with one of our core banks or a reputable local bank, we are proactive in exploring all the relevant implications of doing business in that country. We raise any concerns, identify challenges and opportunities, and share this information with tax, legal, and the business unit leaders. Working closely with the business unit itself, and spending considerable time there, is essential in supporting the local leadership effectively based on an accurate view of risk and operational requirements. This is essential from a strategic point of view: Russia, for example, is now a major market for us with considerable future growth opportunities.

Marie Astrid Dubois
Honeywell
Contact us
It is with great pleasure and pride that we support our clients with their financial needs across Asia, Africa and the Middle East – from trade finance to liquidity management. If you would like to discuss how we can support you in driving growth in these dynamic markets, or in other areas of your business or personal portfolio, please get in touch. You can reach out to your banker directly, or alternatively, use the contact details for each of our offices below.

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With a presence in 70 countries and a unique footprint covering Asia, Africa and the Middle East, Standard Chartered’s business combines global capabilities with deep local knowledge to provide innovative products and services to meet the diverse and ever-changing needs of our corporate and institutional clients in the world’s most dynamic markets.

Your partner for the long run
Building on a rich banking heritage of over 160 years, Standard Chartered is committed to providing a working partnership that builds your business with value-added and strategic solutions that reflect our longevity and unparalleled success. We are committed to our clients, employees and communities at all times.

Dedicated to sustainable success
As a leading international bank, our success is built on teamwork, partnership and the diversity of our people. With a long-term strategy to build a sustainable business, Standard Chartered leads by example in helping to develop emerging markets and ensuring we make a positive impact on society and the environment.

The right capabilities for your needs

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