



From risk to reward: how treasurers manage cash repatriation in restricted markets

In an era shaped by diverse regulatory landscapes and economic uncertainties, corporate treasurers face significant challenges when navigating cash repatriation and hedging strategies in restricted markets. From categorising market intricacies and fostering proactive planning to educating teams on economic realities and forging robust banking partnerships, these approaches not only mitigate risks but also enhance financial resilience in challenging environments.

In a recent webinar with Economist Impact, corporate treasurers shared their strategies for overcoming these hurdles, emphasising the importance of understanding regulatory landscapes, proactive planning, and building strong banking partnerships.

Categorising market complexity

Varun Wadhwa, deputy treasurer of corporate finance and business development at Baker Hughes, an energy technology company, pointed out the critical need to understand the individual regulatory contexts of each country. "Each country's regulatory landscape could be very different. What works in one country may not work in another," Wadhwa explained.

Wadhwa also articulated an approach of categorising markets into low, medium, and high complexity based on several factors:

- **Cross-border pooling**
Assessing the feasibility and ease to sweep cash into global cash pools.
- **Liquidity**
Evaluating whether there is sufficient liquidity in the market to convert local currency cash to hard currencies.

- **Documentation complexity**
Understanding the necessary documentation and routes available to transfer money out of the country.
- **Cost of extraction**
Considering the cost associated with extracting cash, including withholding taxes.
- **Hedging ability and costs**
Determining the feasibility and cost of hedging the currency.

"These factors help prioritise efforts and ensure resources are allocated effectively. This prioritisation helps us in making sure that we are going where there is significant risk that we can mitigate," added Wadhwa.

Proactive planning in high-risk markets

In markets with significant restrictions, proactive planning is essential. Additionally, Baker Hughes prioritises dividend planning and works closely with statutory audit teams to expedite audits and enable faster cash repatriation. "The harder markets need more effort. The ones with the ability to move cash out through cash pooling solutions are generally easier to manage," Wadhwa noted.

A treasurer speaking recently with Economist Impact emphasised the importance of looking at individual countries rather than making broad regional generalisations.

A comprehensive evaluation is required, including pooling, loan repatriation costs, and the regulatory environment. A significant difference in approach is partnering closely with the business to decide whether entering a particular country makes sense. The aim is to avoid situations where there

is revenue but no profit, or where money is being lost, corporate treasurers added.

These processes ensure that any move into a new geographic location is carefully considered. Processes should be established to ensure that the business informs the relevant parties when considering entering a new country. This allows for discussions and informed decision-making.

A robust foreign exchange (FX) policy needs to be developed to manage risks. A certain percentage of the remaining cash should be hedged once a quarter, irrespective of the cost. This proactive approach helps mitigate risks and avoid last-minute, potentially costly decisions. Additionally, the strategy involves avoiding markets where the costs of hedging and doing business are prohibitively high. In such cases, third-party distributors or other methods are used rather than maintaining an onshore presence, a corporate treasurer noted.

Educating teams and management

Wadhwa, stressed the importance of educating commercial teams and management about the economic realities of operating in restricted markets. An educational perspective is required to explain why the P&L may appear favourable, but the economic extraction of profit from a specific entity or location is not worth the time or effort. To address this, cash flow metrics have been implemented alongside P&L metrics to provide a clearer picture of economic value. From a leadership perspective, executives are required to meet specific cash flow metrics, which are then communicated to their sales teams, corporate treasurers added.

Dynamic cost analysis and strategic views

Wadhwa also highlighted the need for a dynamic approach to cost analysis. "Some of the costs are hidden and not incurred in the same period. By the time you repatriate cash, it could be a year later," he explained. Baker Hughes adopts a forward-looking view, leveraging historical data and bank research to forecast future costs and currency trends.

"This approach facilitates informed decision-making and supports constructive dialogue with management and business teams," Wadhwa said. "We gather information from banks to gain insights into currency forecasts and market conditions for the upcoming year. By integrating both historical and forward-looking views, the organisation can have more informed discussions at the management level."

Monica Wai, director, risk management solutions group, emerging markets at Deutsche Bank, underscored the value of these partnerships with banks to address risks and costs. "We try our best to provide solutions to address some of these risks and costs, and share best practices and structures that have worked well for other corporates," she said. Wai highlighted liquidity risk, operational risk, and geopolitical risk as key considerations. "Different markets have differing complications to documentation, and that comes at a cost. There's also the challenge of quantifying country risk or cross-border risk," added Wai.

A key difference in strategy involves making informed decisions about whether to enter or exit a market based on potential economic value extraction. Decisions are often made not to enter a country if the costs outweigh the benefits. This approach requires close partnership with business teams to ensure that all factors are considered before expanding into new geographic locations, corporate treasurers noted.

Managing cash repatriation and hedging in restricted markets requires a comprehensive understanding of regulatory landscapes, proactive planning, effective communication, and dynamic cost analysis. By adopting these strategies and leveraging partnerships with banks, companies can navigate the complexities and maximise their economic value in challenging environments. As Wadhwa aptly stated, "It's a constant effort to educate people around the risks involved and to ensure there's broader thinking about how to approach these markets and long-term business plans."

