DRUM COMMODITIES LIMITED
WORLD BANK – AGRIFIN
“Trade Finance: Warehouse & Inventory Management in Africa”

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CONTENTS

• Structured Trade & Commodity Finance (STCF)
  - Developing Market Place
  - Components

• Role of the Collateral Manager

• Benefits of a Comprehensive Solution

• Case studies

• Structure of Collateral Management Agreements

• Conflicts of Interest

• Trends
Historical increase in price of commodities

- Importer needs finance whereas 10 years ago, maybe less so

- Forms of Bank’s security in STCF deal
  - Borrower’s Securities (general assets)
  - Borrower’s Deposit (cash)
  - Bank’s *pledge* over goods = collateral to loan

- Bank requires “Collateral Manager”

- Bank needs “eyes and ears” and “care, custody & control”

- Risk Mitigant under Basel = reduced balance sheet cover
STRUCTURED TRADE & COMMODITY FINANCE
MARKET COMPONENTS

• Ticket size usually $10 - $30 million

• One year tenor

• Revolving facility

• Pledge

• Reduction in risk weighted assets of Basel 3
THE ROLE OF THE COLLATERAL MANAGER

• “Eyes & Ears” for bank on the ground
  - weighing, sampling, quality analysis
  - fundamental stock control for the duration of the finance facility
  - point organisation for stopping fraud e.g. movement trucks from the port to inland warehouse; release mechanisms

• “Care, Custody & Control”
THE ROLE OF THE COLLATERAL MANAGER (CM)

• Range of services
  - Surveys: site, warehouse, factory, route, mine
  - Standard: stock monitoring, collateral management etc
  - Logistics' studies
  - Quality & Quantity certificates
  - Project Management

• Testing the viability of projects

• Turning the possible into the probable

• Small cog in range of risk mitigants – Basel 3
Weighing
Sampling
Quality
Storing
THE ROLE OF THE COLLATERAL MANAGER

• Collateral Management services for more than one bank’s financing of a specific customer’s stock

• Structures in place for larger syndicated loans to a specific customer

• Audit function

• Dispute resolution

• Non-invasive monitoring during warehouse or factory operations

• Multi-commodity / Pan Africa
Cement - Durban
Cement – Durban
Tank Farm – Dar Es Salaam
Tank Farm – Dar Es Salaam
Frozen Fish - Cameroon
Sugar - Ghana
Rice - Dakar
Wheat - Mali
Wheat - Mali
BENEFITS OF CM PROVIDING COMPREHENSIVE SOLUTION PACKAGE FROM START TO FINISH

• Security of product for bank: physical goods / collateral

• Provision of Warehouse Receipts to initiate the drawdown against the facility

• The release mechanisms – fundamental to the repayment of the facility

• Visual reporting

• Lock in costs for customer as part of the overall financing facility

• Financial status of bank’s client (payment of fees)
CASE STUDIES - FAILURES (AFRICA GENERAL)

PAN AFRIC – Coffee, Uganda

• Very poor site inspections (warehouse volumes etc)

• Poor back office controls – fast drawdowns

• Stock control (swimming pools)
Pan Afric – Stock Control / Swimming Pools
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CASE STUDIES - FAILURES (AFRICA GENERAL)

AUDITS: Ghana, Mozambique & Tanzania

- Ghana cocoa cheque fraud
- Mozambique audit empty maize silos
- Tanzania audit on various imports: warning to tax authorities & warehouses closed prior to our arrival

Recovery is limited by $1 million trigger point for legal action
CASE STUDIES - SUCCESSES (DRUM)

NON-INVASIVE MONITORING & INSPECTION – Cocoa Nigeria

• Stock monitoring during working hours with degree of tolerance on quantities

• Checks included swimming pools, quality probes & perimeter security checks
Cocoa Monitoring & Inspection Audit - Lagos
CASE STUDIES - SUCCESSES (DRUM)

SUPPLY CHAIN / PIPELINE CONTROLS (fertiliser Nigeria)

- Ship to Port Warehouse; by truck & inland to warehouse / to blending plant; to finished product warehouse; to final release against sales
Supply Chain Management / Pipeline Control
Supply Chain Management / Pipeline Control
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CASE STUDIES - SUCCESSES (DRUM)

TRANSPARENCY OF PRICING

• Enabled a West African fuel project to go-ahead
# Pricing Transparency – West Africa

## APPENDIX THREE TO CMA: COSTS

### PETROLEUM PRODUCTS

(all prices are subject to confirmation, contracts and monthly reviews)

### ALL ESTIMATED PRICES ONLY AND SUBJECT TO SITE SURVEY

<table>
<thead>
<tr>
<th>PER MT PER MONTH</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Location / Tank</strong></td>
<td><strong>1</strong></td>
</tr>
<tr>
<td><strong>DRUM’S MINIMUM MONTHLY CHARGE (Excluding Insurance)</strong></td>
<td></td>
</tr>
<tr>
<td>In-Country Manager</td>
<td>$500</td>
</tr>
<tr>
<td>Supervisors - number</td>
<td>2</td>
</tr>
<tr>
<td>Per person rate</td>
<td>$500</td>
</tr>
<tr>
<td>Total Supervisors</td>
<td>$1,000</td>
</tr>
<tr>
<td>Accommodation In-Country Manager</td>
<td></td>
</tr>
<tr>
<td>Bank Charges</td>
<td></td>
</tr>
<tr>
<td>Car: amortisation of initial purchase</td>
<td></td>
</tr>
<tr>
<td>Car - Petrol / Maintenance / Tyres / Repairs etc</td>
<td></td>
</tr>
<tr>
<td>Communications In-Country Manager</td>
<td></td>
</tr>
<tr>
<td>- Telephones / Internet</td>
<td></td>
</tr>
<tr>
<td>Communications In-Country Supervisors</td>
<td></td>
</tr>
<tr>
<td>Drum Internal Audit flights / hotel / local transport</td>
<td></td>
</tr>
<tr>
<td>Drum Management &amp; Reporting</td>
<td></td>
</tr>
<tr>
<td>Drum insurance - Legal &amp; Liability</td>
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</tr>
<tr>
<td>Insurance (medical, travel etc) - In-Country Manager</td>
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<tr>
<td>Lease</td>
<td>$1</td>
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<tr>
<td>Leave costs, flights etc / replacement - In-Country Manager</td>
<td></td>
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<tr>
<td>Seals</td>
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</tr>
<tr>
<td>Security - third party</td>
<td></td>
</tr>
<tr>
<td>Subsistence In-Country Manager</td>
<td></td>
</tr>
<tr>
<td>Stationery</td>
<td></td>
</tr>
<tr>
<td><strong>Total Minimum Monthly Charge exc. Insurance</strong></td>
<td>$1,351</td>
</tr>
</tbody>
</table>

| **DRUM MARK UP %AGE** | 0% |
| **DRUM MARK UP** | $0 |

| **CMA CHARGE** | $8,201 |
STRUCTURE OF COLLATERAL MANAGEMENT AGREEMENTS

• Tri-partite Structure (CM vetted annually; CMA pre-approved)

• Main agreement:
  - English law to match Lloyds of London insurance
  - Arbitration facility
  - principal CM company as counter-party (no subsidiary) = full recourse

• Insurance from Collateral Manager:
  - Legal & Contractual
  - Professional Indemnity
  - NOT marine cargo / all risks

• NO security or warehouse management
STRUCTURE OF COLLATERAL MANAGEMENT AGREEMENTS

- Appendix One: Scope of Services
  - following warehouse / tank farm “fit for purpose” under Lloyds of London insurance

- Appendix Two: Warehouse Receipt

- Appendix Three: Fees
  - compare ‘apple with apples’
  - distorted pricing structures

- Appendix Four: Lease / Sub-Lease
  - to provide “full & unfettered access”

- Appendix Five: Waiver of Lien
CONFLICTS OF INTEREST IN CMA’S

• Tri-partite

• The Bank’s collateral but the Borrower pays the fees direct to Collateral Manager (CM)

• Non to late payment

• Reporting, on occasions, has to be invasive – “eyes and ears for the bank”
  - “care, custody & control” of Bank’s stock

• Potential jeopardy of business for CM
CONFLICTS OF INTEREST

• Role of Relationship Managers

• Who do they work for?

• Banks subjugate their responsibilities
TRENDS

• Big getting bigger
• Risk averse banks rebuilding balance sheets
• Risk profile versus return of corporates
• Corporates providing cheaper borrowing rates to counter-parties
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SUMMARY & QUESTIONS

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