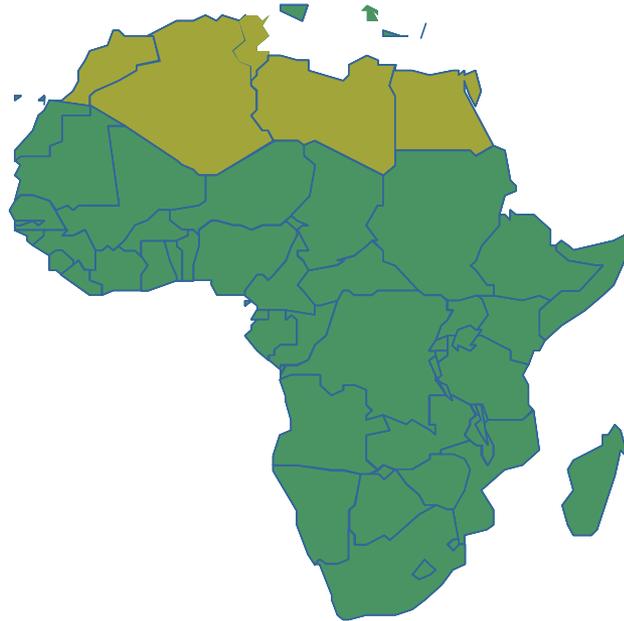


**DRUM COMMODITIES LIMITED**

**WORLD BANK – AGRIFIN**

**“Trade Finance: Warehouse &  
Inventory Management in Africa”**



[www.drumcommodities.com](http://www.drumcommodities.com)

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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

# STRUCTURED TRADE & COMMODITY FINANCE DEVELOPING MARKET PLACE

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



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# Sampling



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# Drying



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# Quality



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# Storing



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# 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



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# Cement – Durban



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# Tank Farm – Dar Es Salaam



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# Tank Farm – Dar Es Salaam



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# Frozen Fish - Cameroon



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# Sugar - Ghana



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# Rice - Dakar



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# Wheat - Mali



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# 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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## Pan Africa – Stock Control / Swimming Pools



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## Pan Afric – Stock Control / Swimming Pools



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## 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



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## 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



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# Supply Chain Management / Pipeline Control



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# Supply Chain Management / Pipeline Control



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# 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				
PER MT PER MONTH				Notes
Location / Tank	1	Other	FULL MONTH CMA BUDGET COSTS SEPTEMBER 2010	
DRUM'S MINIMUM MONTHLY CHARGE (Excluding Insurance)				
		(As required)		
In-Country Manager			\$500	
Supervisors - number	2	0		
Per person rate	\$500			
Total Supervisors	\$1,000	\$0	\$1,000	
Accommodation In-Country Manager			\$500	
Bank Charges			\$500	
Car: amortisation of initial purchase			\$500	
Car - Petrol / Maintenance / Tyres / Repairs etc			\$500	
Communications In-Country Manager				
- Telephones / Internet			\$250	
Communications In-Country Supervisors	\$100		\$100	
Drum Internal Audit flights / hotel / local transport			\$1,500	Once per three months; amortised monthly
Drum Management & Reporting			\$1,000	Includes Main Office Durban
Drum insurance - Legal & Liability	\$200		\$0	
Insurance (medical, travel etc) - In-Country Manager			\$100	
Lease	\$1		\$1	
Leave costs, flights etc / replacement - In-Country Manager			\$1,200	Amortised per month / 3 month return trip
Seals	\$50		\$50	
Security - third party	\$0		\$0	Not required - post site survey
Subsistence In-Country Manager			\$500	
Stationery				
<b>Total Minimum Monthly Charge exc. Insurance</b>	<b>\$1,351</b>	<b>\$0</b>	<b>\$8,201</b>	
DRUM MARK UP %AGE				0%
DRUM MARK UP				\$0
<b>CMA CHARGE</b>				<b>\$8,201</b>

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# 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

