Structured Trade Finance - Introduction

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“Structured Trade Finance is the means through which capital solutions (both funded and non-funded) are provided outside the traditional fall back on securities – the focus shifts from the “strength” of the borrower to the underlying cash flow and structures that enhance safe financing”

- Credit Enhancement / Securitization
- Matching Client Needs to Solutions in a non-traditional yet safe manner…
Structured support...

- Independent...(escrow agent...collateral manager...insurance). Not the client!!
- Institutional (counter party risk assessment);
- Relationship must be governed by clear agreements / covenants;
  - Enforceability;
  - Auditable;
  - Role / responsibility of parties must be clear
  - Laws (exclusive / non-exclusive)
- Authority within the industry:
  - Chambers of Commerce;
  - Industry regulatory authority
Traditional Credit Instruments

- Charge on Landed Property;
- Debentures (Senior / Supplemental / Mezzanine)
- Specific Charge Asset;
- Guarantees;
- SBLC, Green clause LC..
- Etc

Compensatory effect on risk
Structured Trade Finance

• Credit enhancement instruments:
  – Collateral Managers;
  – Warehousemen (Warrants / Warehouse receipts);
  – Traditional Insurance;
  – Export Credit Agency underwriters – insurance
  – Quality control;
  – Escrow account;
  – Special Purpose Vehicles;
  – Tripartite, quartette, etc Agreements;
  – Use of Government, quasi government, industry self regulators and other institutions
Progress Diagram

- Understand the Industry & Client
- Plot the sequence
- Mitigate the risks

- What industry;
- What positioning;
- 5 Forces;
- What resilience?

Transaction Cycle

Institutional players; Other market Instruments
Porters 5 Forces

- Threat of New Entrants
- Threat of Regulatory pressure
- Threat of Existing Competition
- Threat of Alternatives
- Threat of Buyer/Seller Pressure
Traditional Transaction Cycle

Corporate & Trade Finance

Commodities

Cash disbursement

Security support / traditional

Factory

Export

Re-payment

Settlement

RIWAC ?? 100%
Structured Trade Finance

Cash disbursement
- Diversion
- Price
- Quality
- W-Loss
- Storage
- Insurance

Cash conversion cycle / Alternative Securitization...

Re-payment
- Document negotiation
- Restrictions
- Escrow accounts

Settlement
- Shipping docs

Export
- Packing
- Storage
- Insurance

Factory
- Milling
- Storage
- Quality
- Commingling
- Insurance

Open Account

Letter of Credit

Settlement
- Changes-buyers mkt.
- Loss at sea. CIF, CF,
Risk Mitigation Instruments

- Institutional players
- Warehousing
- Quality Assurance Personnel
- Insurance
- Price Mitigation
- Documentation

RIWAC..??
Risk Mitigation Instruments

- Warehousing
- Quality Assurance
- Personnel
- Documentation
- Institutional players

Price Mitigation

- Fixed price contract
- Forward Contracts; Futures;
- Commodity Swaps; Options
- (Calls and Puts); Collars
Risk Mitigation Instruments

- Warehousing
- Quality Assurance
- Personnel
- Institutional players
- Insurance
- Price Mitigation
- Documentation

SGS;
MITCHEL COTTS...
Risk Mitigation Instruments

- Tripartite Agreements to cover third Party obligations…
  - Responsibilities & obligations
  - Limitations;
  - Fees
  - Recourse and Regulatory laws…

Institutional players

Quality Assurance Personnel

Documentation
Structured deals

- KPCU – US$ 4 Million – Assignment / Receivables escrow a/c…role of control – Coffee Board…
- Structured Pre-shipment Financing Facility – Use of MOD and RBM {US$ 50 Million}
- Gold Loan’s – Lending in Gold…(derivatives)
- PTA Bank US$ 500 Million CPP Facility / RBZ (US$ 90 Million)
- CP / Bond – Faulu…

- Oil Financing
- Tobacco for Oil – Malawi (Exchange Controls)
Key Success Factors

- Know your client…
- Understand the entire cycle of events…the sequence of events;
- Identify the challenges and risks…nothing is risk free…
- Identify cross selling opportunities
- Limited liability, partnerships, …perfection of securities…annual review and validity…changes in the environment…
Rwanda`s
Coffee Financing
Coffee
Rwanda Map
Basic Statistics - Rwanda

- GDP – US$ 10 Bn;
- Per Capita – US$ 1,300
- Main Exports – Coffee, Tea, (FOB – US$73.5 Mn.)
- Main Imports – manufactured goods, foodstuffs, medicines etc.
- Main trading partners – South Africa, Congo, Tanzania, Kenya
- Population – 8 Million
Marketing Strategy - Rwanda

Rwanda Transaction

Due diligence
Smart Partnerships
Risk Management
Leverage ATIA
Progressive Structures Development

- **Client**
  - Capacity
  - Ability
  - Management
  - Repayment

- **Industry**
  - Maturity
  - Resilience
  - SWOT

- **Counter-Party**
  - Tested
  - Intelligence on mkt.
  - Opinions</Credit>
  - Terms requested

- **Lending & exit**
  - Plotting the Structure;
  - Exit strategies;
  - Security;
  - Insurance;
  - Use of Industry structures
Which Coffee??

- **Robusta**
  - Cherries red picked;
  - Basic drying on sieve mats to reduce moisture;
  - Washing and separating into FAQ + Qualities;
  - Testing for moisture content, and other inherent qualities – acidity, sucrose etc..
  - Hulling machine
  - 2 grades

- **Arabica**
  - Cherries red picked;
  - Pulping outer skin – primary societies – weight parchment (P1,2,3,4 PL) – All in water…
  - Fermentation – removing sugar 48-72 hours;
  - Washed – then drying (shed drying (no direct sun) 1 month…depending – sound)
  - Samples – 8.9 – 10.9% <drying machines>
  - Milling – brown taster (second + third = green color)
  - Grading – size (machine) + cupping (quality ) =
  - Testing for inherent features – determination of quality…
  - AA, AB, E, PB, TT, T, C – (MBUNI H, ML)
Coffee Producing Countries
Which countries really matter?
Price Volatility...

Figure 6: Monthly New York Coffee futures (spot month)

Source: Volcafe. It is important to note that individual farmers did not capture the full 'producer's profit' as indicated here, since much was absorbed by intermediaries and inefficient marketing chains.
Global Prices
Structured Finance – Pie Chart

- Mitigants
- Use of Group strengths
- Other options
- Sequence Of Events
- Industry
- Client
Cash flow

- Farmer → Cooperative
- Cooperative → Exporter
- Exporter → OCIR - CAFE
- OCIR - CAFE → Export (Importer)

Washing and sorting FAQ

Bank Financing

Samples Quarantine

Boarder

Payment

Bank

Bank receipts
**Disbursement Risks**

- **Diversion** – control through cash on delivery; Bank confirmations
  - Partner with local Bank to enable you control this;
- **Price** – Put options on the determined NY price…
  - Purchase a “collar”! Maybe cost-free…
- **Quality** – CM check on general conditions (level of impurities…)
  - Role can be outsourced from Credible Operative (or in-house!)
- **W-Loss** – storage and security…
- **Storage** – Warehouse Manager / CM [SGS / Mitchell Cotts]
- **Insurance** – Commodity insurance cover against theft, fire…
Factory Risks

• Milling - minimal
• Storage – covered by insurance
• Quality - process
• Commingling – key conflict – need to separate and control (obtain acknowledgement from other financiers)
• Insurance – fire, theft
Export

- **Packing** – According to Quality and weight standards required...
- **Storage** – Transferred to OCIR-Café
- **Insurance** – To Boarder with Tz or Ug.
- **Settlement**
- **Changes-buyers mkt.** - ?? ??
- **Loss at sea** – CIF, FOB – Terms of Export…
Repayment Risks

- Restrict Negotiation;
- Assignment of Receivables;
  - Traditional bank securities – charge, debentures, negative pledges ….
- Escrow account…nominee bank / exchange controls?
- Change in financial position of buyers…?
Rwanda Structure

- Collateral Manager;
- OCIR- Café – Confirmation and retention;
- Assignment of proceeds (buyers)
- Price derivative (collar)
- Insurance on goods (fire / theft)
- Loan management partner / agent commercial bank;
- Political risk cover from ATI;
- Credit risk cover from ATI.

\[
\text{ATI / OECD Reinsurance} = \text{RIWAC 0%}
\]
ATIA - Linkage

- Confiscation;
- Forex remittance;
- Unfair call / action prejudicial;

- Commercial default;
- Must be full business
- 90% of the claimed value

Rwanda Country Risk

Buyer Risk (Whole turnover)
**Benefits to Bank**

- Safe entry into the Region;
- Credit enhanced facilities – overcoming the limitations of traditional securities;
- Enhanced income diversification / generation;
- Develop SME’s and Large Corporate business diversification into non-traditional destinations – Eastern Europe…

**African Trade Insurance**

*Africa’s ECA!*
An over concentration – Buyer Risk

% of Kenyan Tea by destination

- Pakistan
- Egypt
- UK
- Afganistan
- Sudan
- Yemen
- UAE
- Russia
- Ireland
- Kazakhstan
- Poland
- India
- USA
- Somalia
- Sri Lanka
Diversify – what’s the risk

- Entering new markets – untested – could lead to higher risks if we are to break into other export countries traditional markets!
- How can you enter with lower levels of financial costs for the importer?
- What alternative risk management methods could you call in order to be at a competitive advantage to other suppliers?
Credit Insurance

Seller/Exporter

Buyer/Importer

ATIA

Atradius

Inquiry / Credit Insurance
....the horses’ mouth!