



Robin Dand Commodities Ltd

Financing the Cocoa Trade

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Introduction

- Reasons why some banks offer this service and others do not
- What the financiers;
 - consider when looking at a financing deal;
 - the process they undertake;
 - What are the components making up the price of a transaction
- Types of finance transaction available throughout the trade flow from farm to factory



Commodity Finance

- Reasons why some banks like it:
 - Usually short-term transactions
 - Security provided by
 - Assets
 - Title documents
 - Ownership
 - Structures are self-liquidating
 - Sale of goods provides repayment
- Reasons why some do not:
 - Lack of knowledge on Commodities in general
 - Volatility of markets
 - Margin calls
 - Origin country risks
 - Perceived as being too high
 - Infrastructure of bank not optimised to offer financing service

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Parameters Banks Consider

The Borrower

- Financial status
- Internal rating (by the bank)
- General management of risk
- History
- Place in the market
- Strategy

Structure of the Transaction

- What is being borrowed and nature of the deal
- Collateral structure
- Advance rates
- Financial and operational covenants

Credit Monitoring

- Collateral position
- Overdue payments
- Counterparty limits
- Audits

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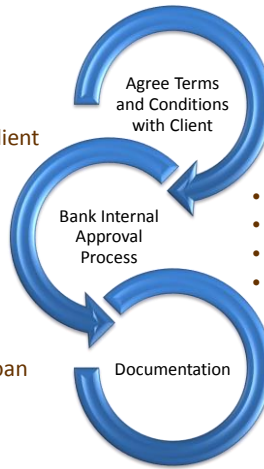
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Bank Credit Process

- Amount
- Structure
- Pricing
- Know Your Client



- Capital Approval
- Formulate Credit Proposal
- Credit Committee discussions
- Adjustments, if needed

- Bilateral
- Syndicated loan
- Standard

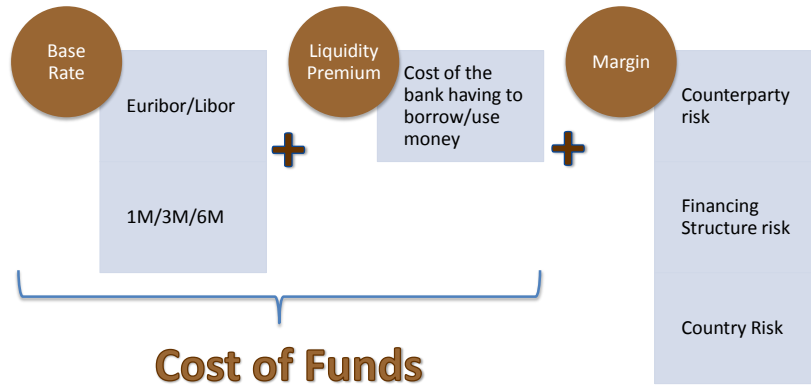
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Components of the Transaction Price



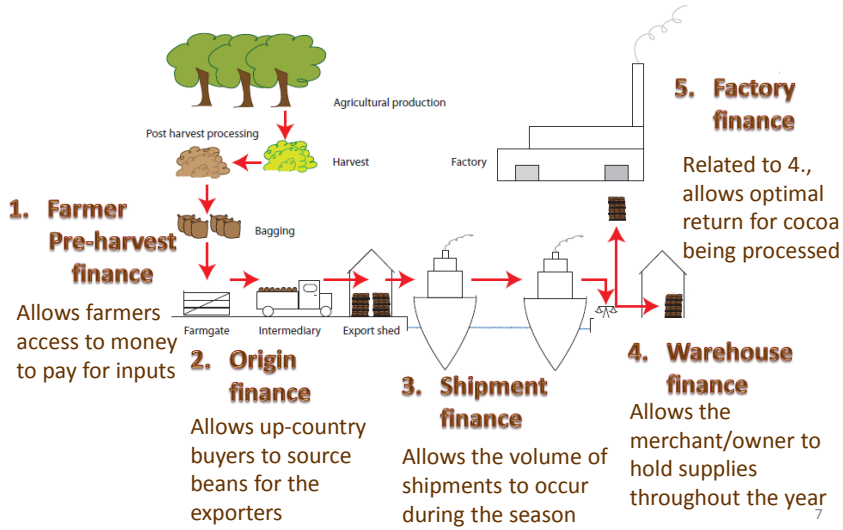
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Role of Trade Financing – Helping the Flow of Trade



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Pre-harvest Financing

- Required by farmers for either;
 - Set-up costs; or
 - On-going input costs and harvesting
- Financing by banks done through intermediary on the ground with recourse by the bank to the intermediary
- Unsecured



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Origin Storage Finance

- Cocoa purchased by client and delivered to port of export
- Client hedges position with short futures through Inventory Management
- Cocoa stored at export warehouse, receipt issued and held by the bank as security and given up on export



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Shipment Finance

- Cocoa exported, Bill of Lading (B/L) issued
- B/L used by bank as collateral
- Cheaper finance



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Warehouse Finance

- Cocoa stored and warehouse warrant issued to the order of the bank
- Bank finances against the warrant
- Cocoa remains financed until sold

Note: Financing rate can be reduced by having the cocoa deliverable against an Exchange position



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Final Receiver Finance

- Client offers term financing (backed by the bank) to final receiver
- Financing against pledge of receivable funds from the final receiver



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If this looks familiar...

- Know your contracts
- Ensure that the company systems work; checks and balances
- Use the futures markets
- Know your counterparty
- Stay in touch with your counterparty
- Manage your [physical] contracts

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Thank You!



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