Agri Supply Chain Finance

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Agri Supply Chains in Vietnam

• Agri finance is a policy priority for Vietnam

• Supply chains aim to connect first mile procurement to last mile delivery

• To feed exports, distribute imports and across the growing domestic market

• Historical experience – According to MARD, high transaction costs, poor coordination between actors, outdated post-harvest and processing technologies
Agri Supply Chain development

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<th>Value addition</th>
<th>Market efficiency</th>
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<td>Performed in-country</td>
<td>Transparency price discovery, forward contracts, enforcement regime</td>
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<th>Road/Rail/Waterway access to terminal markets</th>
<th>Proximate storage offering security and preservation of produce</th>
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<td>Inserting Vietnamese counterparties into global supply chains</td>
<td>Maximise yields Demonstrate up-to-date, more effective farming methods Reduce uncertainty, Crop and downstream Insurances</td>
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| Cost-effective access to certified farm inputs, machineries, support services |
| Irrigation Reduce reliance on rain-fed crop production |
| Land Reform From subsistence farming to commercial scale. Incentivise young adults to take up agribusiness |

Finance for development of supply chain infrastructure, collateralisation of assets, access to farm working capital, warehouse finance, receivables finance

A policy and legal framework catering to needs of all constituencies in the agribusiness value chain

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Challenge of raising credit

Most MSMEs fail the desired credit risk metrics used by banks

Credit based on whole-balance-sheet not feasible

Shift to asset-backed lending

Lending against real estate is well-established; lender exposed to liquidity and market risks in addition to credit and other risks. Long tenors

How about monetising Receivables and Inventories? Enter Supply Chain Finance that covers the gamut of payables and receivables finance

Strength of commercial rationale

Reliance on the borrower’s desire to accept/make delivery over borrower’s ability to repay
Flow of a trade finance facility

1. Short-term loan – payment to supplier
2. LC to supplier
3. BG/Trade Guarantee to supplier

Pre-Finance
- Pre-export
- Prepayment
- Tolling

Asset-backed Finance
- Pre-Shipment
- Warehouse

Receivables Finance
- Export bill purchase/discount
- Factoring, Forfaiting

Warehousing & Distribution

Finished goods

Procure Raw materials

1. Shipping Guarantee
2. Post-import finance/Working Capital loan
3. Warehouse Finance

Export bill purchase/discount (collection + under LC)
Export bill discount (bank-accepted bill), Factoring

Consumer/Buyer
Why should banks engage in Warehouse Finance?

- A form of asset-backed lending with short tenors; may deliver superior risk-adjusted return on capital (RAROC). Sale price protection may be available.

- Warehouse Finance over crop stocks with appropriate safeguards can be a viable business opportunity for banks seeking to extend rural reach; promote financial inclusion.

- Warehouse Finance forms a bridge between production finance and distribution finance. Supporting industry.

- Encourage warehousing of essential goods, contributing to stability of supply chains and also reducing volatility in market prices.

- Lenders for goods in warehouse must take into account liquidity/market/spoilage risks.

Provision of Warehouse Finance is about injecting liquidity at various stages of the agri supply chain – post-crop harvest, pre- and post-processing, pre- and post- sales.
Questions?

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