

AITEC's West African Banking & Mobile Conference
June 2011

Risk Minimization through
Trade Settlements
using
Mobile Phone Technology.

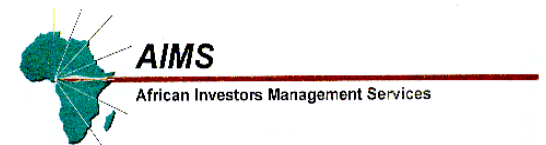
Judson Welsh, CEO
AIMS Ltd
Ghana

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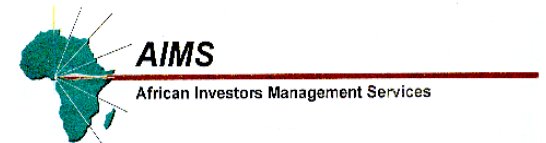
Governance
Traceability
Transparency



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The objective is to improve the quality of security for loans (“security” in the sense of guarantees, collateral and insurance coverage required by banks as conditions precedent for lending).

The challenge is to develop a method of payment as an alternative to cash outlays that will induce the lending institutions to reduce collateral requirements presently demanded for the extension of credit and disbursement of monies to processors or traders for the purchase of raw commodities.



Improvements in warehouse management mitigate risk once the product is in stock:

Warehouse receipts and collateral management permit financing at that stage with measurable and controlled product.

THE GAP:

no third party control is between Farm-gate to Warehouse.

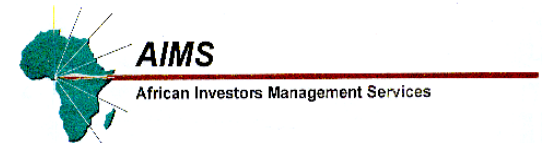
A Tool for Pre-Export Financing

- *A major constraint is the inability to trace the use of disbursed funds which are used to purchase the raw or fresh products in rural areas and transported to warehouses:*
 - *Banks rely on onerous collateral requirements which are expensive and difficult to realize in the event of default*

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Banks by using mobile telephony can:

- *Improve compliance with KYC and HAACP regulations*
- *Replace the risks associated with cash outlays by providing electronic transfers to known clients*
- *Advise Payments and transfers*
- *Reduce collateral requirements.*
- *Reduce the cost of lending*



A Tool for Pre-Export Financing

- *Non-oil agricultural products are targeted as growth sectors:*
 - *Food Security*
 - *Export Earnings*
- *Demand exists for “Non-Traditional” Exports (ie: Shea or Cashew, Horticultural and others);*
- *Commercial banks are not comfortable with pre-export financing of these raw commodities be it for direct export or value added processing in-country;*

A Tool for Pre-Export Financing

- *Banks have traditionally relied on foreign buyer-financing and simply “manage” the cash under buyer instructions;*
- *For local value added industries to flourish there is a need to pre-finance raw or fresh products destined for processing:*
 - ✓ *Buyers are not necessarily able or willing to finance;*
 - ✓ *Local financial institutions have to step up with solutions*

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Financial institutions are risk adverse and are hesitant to lend money without extensive guarantees and/or insurance relying on them more than the transaction.

This results in:

- sluggish development of the agricultural sector because in many instances the producers do not have access to adequate collateral.
- Inappropriate or late disbursements are:

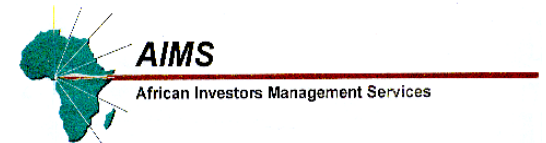


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Traceability:

Focus on the traceability is to ensure the monies lent are used for the stated purpose.

- Tracking the movement of cash for the purchase of raw or fresh commodities and the movement of the raw commodities until they reach the ports or the processing facilities.
- Compliance with Fair Trade, Child Labor etc implore that systems are developed to assure traceability.



Negotiations:

The negotiations between the buyer and the supplier take place as they would normally for quality and quantity,

Instead of handing over cash, the buyer notifies the bank of the amount required for the supplier (prior identification established)

The Bank credits the supplier's account with the agreed upon amount and debits the buyer's account.

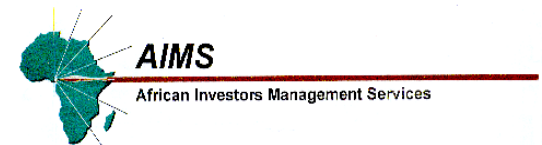
Both will be notified by the bank through mobile phone.



Trade Settlements

Range between \$10,000 and \$100,000 weekly depending on quantity and quality considerations as well as the price of the commodity:

- Buyers and sellers can be identified and establish bank accounts;
- Bankers receive an order to pay and send advice of payment to producers over the phone real time payments;
- Funds can be traced easily and risk of theft or misuse of funds is minimized.
- Financial Inclusion objectives can be accomplished in part by the use of mobile telephony



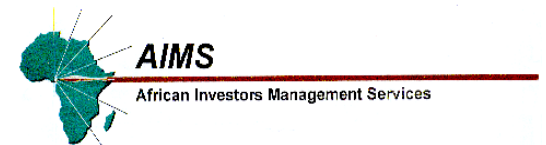
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Benefits

Reduced need for guarantees, collateral and insurance related to the cash and carry system presently used.

Eliminate the risky task of carrying liquid cash

Reduced cost of borrowing should go down and the capacity to manage monies will be enhanced.



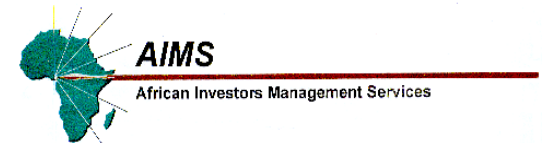
Benefits

Assist the rural farmers to access the banking services, ensure security of the transaction and increase customer base of the banks.

Reduce the risk of misappropriation of funds

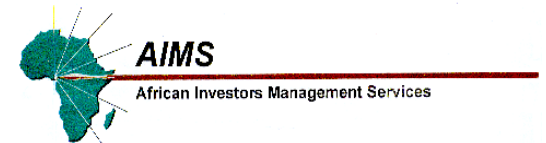
Improve transparency as well as reducing the cost of borrowing.

It's a product that will see a wide benefit to buyers, suppliers, banks and government regulatory authorities

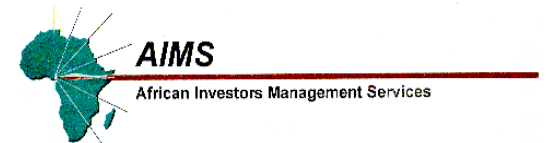


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Farmers need to be integrated into the financial system, Financial Inclusion, is necessary in order for them to participate in economic growth. With bank accounts farmers cash flows can be observed by the Banks which will lead to a greater appreciation of the opportunities open to lending and providing financial services to farmers and cooperatives.

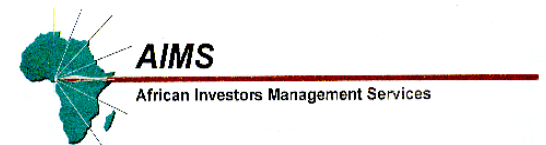


Please join our session on the interoperability of mobile platforms and help us expand on the need to make a level playing field.



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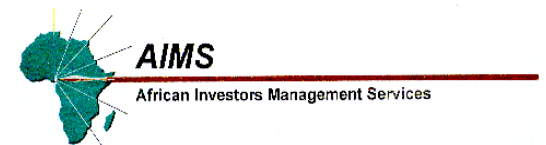
Thank You
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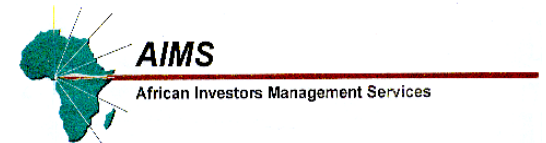
NOTES

“Instead of carrying cash in a box to purchase raw commodities in rural areas, why not setup a system for the banker, buyer and supplier which permits traceability and transparency of the money movements?”



NOTES

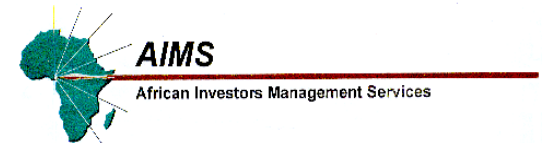
All raw commodities face agricultural risks, which include price fluctuation, availability of inputs, flood, pests, drought and poor delivery systems. All this risks are worsened by the fact that many agricultural farmers in rural areas are unbanked and banks are uncomfortable disbursing large sums of money during the purchasing period.



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NOTES

If the money can be tracked, then it will assure the bankers that it will be used to purchase the designated agricultural commodities. Improved traceability could translate an increased number of banked individuals, less costs in management of payments and a more secure lending environment for banks.



NOTES

Practically speaking the buyer, who is also the bank's client, will simply identify and introduce his potential suppliers to the bank. Once the names and identities of the suppliers and their bank accounts are known or established, together with their cell phone numbers, a security code can be introduced for notifications of transfers and payments. The supplier and the buyer must have access to mobile phones and bank accounts for this approach to become effective.

