

Training Manual: The Basics of Financing Agriculture

Module 6.4 | Lending Process and Procedures

Acknowledgement

The Agriculture Finance Training Manual is part of AgriFin's Agriculture Finance Training Tools. The Manual was developed by [IPC](#) - Internationale Projekt Consult GmbH as part of AgriFin's technical advisory project for Cameroon Cooperative Credit Union League ([CamCCUL](#)).

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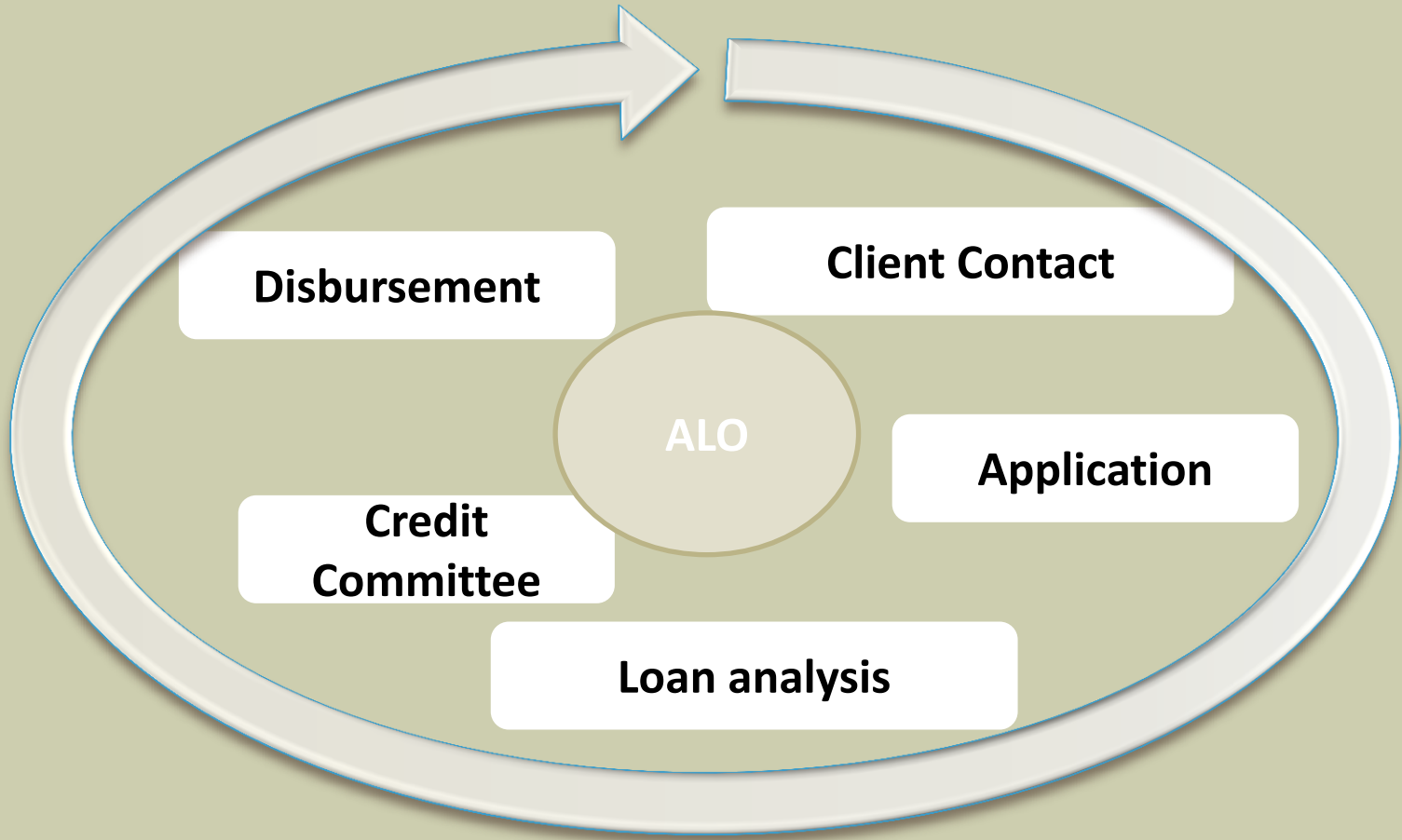
Session Overview

LEARNING OBJECTIVE	Officers of the agriculture financing team should be aware of the complete loan cycle. This enables them to be aware of the loan process, understand the industry and improve their investment quality.
SCOPE	<p>By the end of this session, the trainee will have a basic understanding of the following:</p> <ul style="list-style-type: none">• Complete loan process from the first point of contact to loan disbursement• Procedures needed to assess credit process• Roles of the different SCCs• Managing portfolio with respect to monitoring and restructuring
TARGET	Agriculture loan officers, trainers, agriculture experts with limited financial analysis training, and other professionals interested in agriculture financing
DURATION	2 hours

Content

1. Loan process: Overview
2. Client Contact
3. Application
4. Client Visit
5. Credit Analysis
6. Loan Grant Process
7. Disbursement

1. Loan Process: Overview



2. Client Contact – Major Changes (1/3)

- The manager decides which ALO/LO will assess the loan application
- The **ALO/LO must visit the applicant** at his/her business(es) and premises
- The decision to grant the loan is based on the **repayment capacity (and no longer solely on the collateral)**
- The decision is not taken by the manager only but by at least 2 people other than the ALO who assessed the application. It is called the “**Staff Credit Committee**” (SCC). This committee recommends a decision to the Credit Committee/BoD
- Credit Committee/BoD do not have to visit the applicant

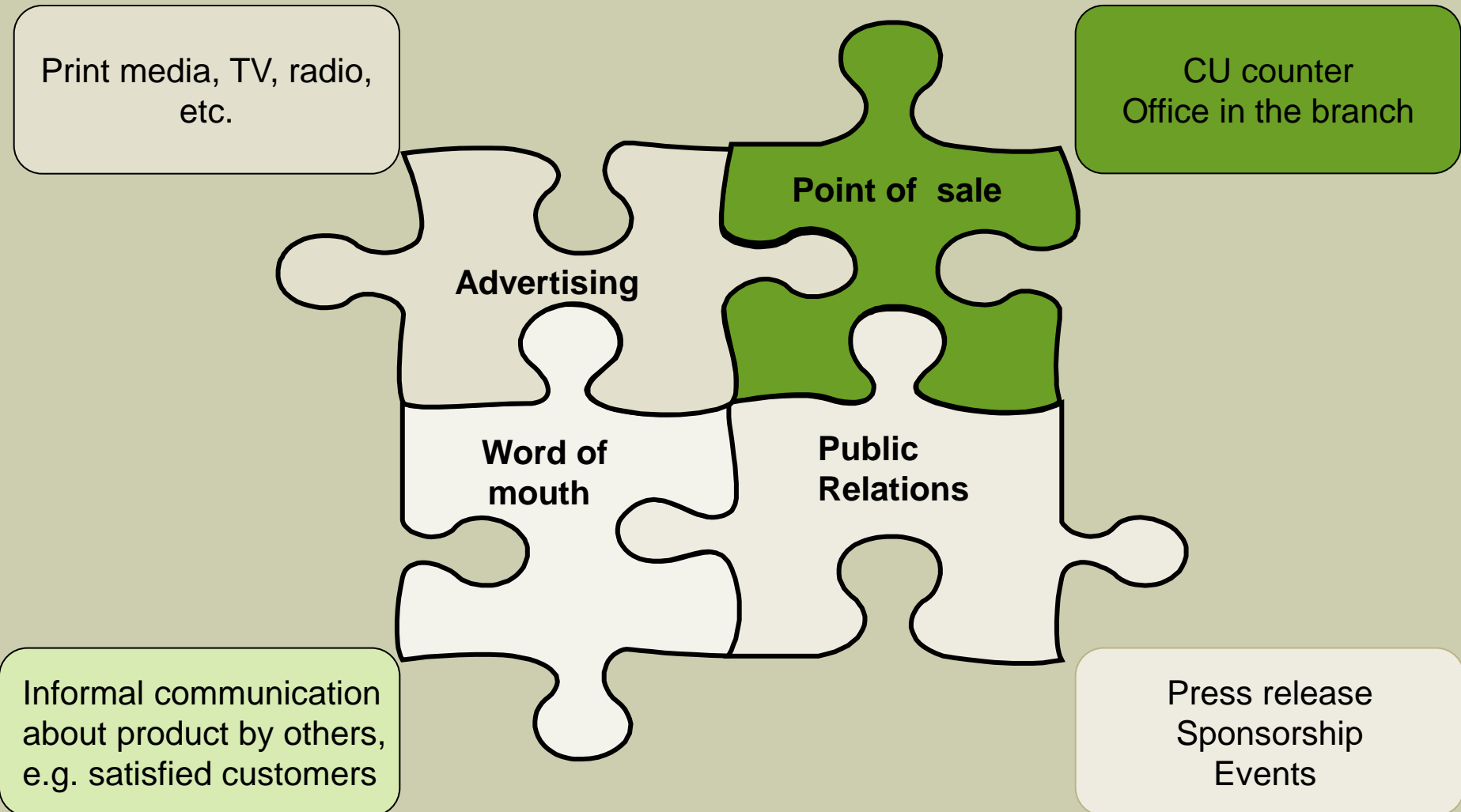
2a. Client Contact – Major Changes (2/3)

- **Delinquency management:** Loans must be taken into consideration from **Day -3** before they become delinquent. Very specific actions have to be undertaken in the first 15 days.
- The “**Portfolio Management Committee**” (PMC) helps the CU staff to fight delinquency more actively. Members of the BoD can participate.
- **Monitoring:** to ensure early detection of risk, e.g. financial monitoring, collateral monitoring, loan management

2b. Client Contact – Major Changes (3/3)

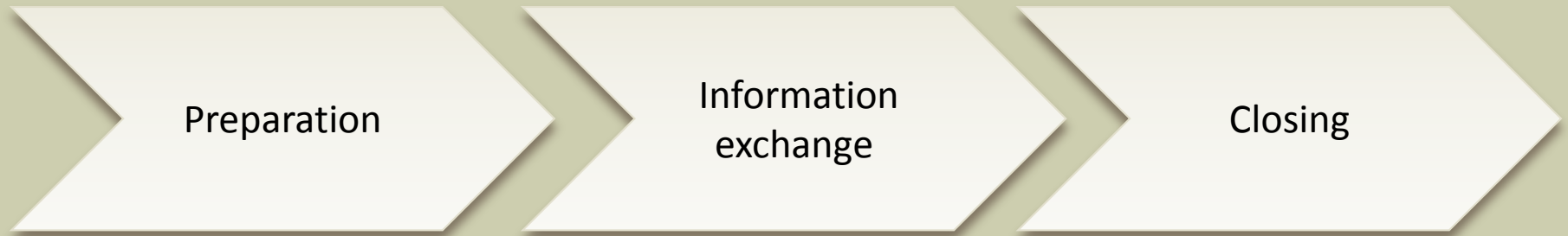
- **Agricultural Business Loan Products:** 3 methodologies to assess an agricultural loan product depending on the amount the applicant requested:
 - Micro Agricultural Business Loans
 - Very Small Agricultural Business Loans
 - Small & Medium Agricultural Business Loans
- Speed loan product
- Other products

2c. Client Contact – Marketing



2d. Client Contact – Basic Steps of Canvassing

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2e. Client Contact – Sales-talk Phases

A	Attention	Attract the attention of the member, i.e. opening sequence. Don't necessarily start with the loan product.
I	Interest	Arouse interest in your loan product.
D	Desire	Generate desire, i.e. show the member how he/she could benefit from a loan.
D	Decision	As long as the member seems to be interested, continue until you sense that he/she has come to a decision.
A	Action	Agree on another meeting with the member, e.g. "Let's meet tomorrow at 10 in the branch for more information."

2f. Client Contact – Steps for Success

1. Plan your visit

- Who are you visiting? Who is the client? What financial problems might he/she have?
- How could CamCCUL products resolve these problems?

2. The visit

- Try to talk to the owner of the company/farm
- Ask them about their experience with financial institutions and ask them to describe potential problems:
 - Any projects to be financed (e.g. machines)
 - Safe place to deposit funds

3. Follow up

- Call clients and thank them for meeting with you. If they are interested, invite them to visit the credit union
- Keep a list of visited clients and continue to invite them to see the CU
- In case of larger clients, have the CU branch manager accompany you

2g. Client Contact – Member Needs

Need	Financial solution
Purchase seeds, pay salaries, etc.	Working capital loan
Keep money in a safe place	Savings account
Acquire machines, cars, build a barn	Loan for fixed assets
Liquidity during times of sparse revenue	Overdraft
Pay providers, receive money from clients	Money transfers
Import goods	Import licences

2h. Client Contact – Member Needs

- Use existing clients (who are their clients, suppliers, guarantors, etc.?)
- Go down or up the value chain (who is the input provider, who buys from your client, etc.?)
- Recommendations from your client
- Farmers associations
- Be systematic: develop a strategy for covering your area!

2i. Client Contact – General Tips

Pre-acquisition

- Develop an acquisition strategy and follow up on meetings and visits
- Don't go to a meeting unprepared
- Dress appropriately in clothes that make you feel confident

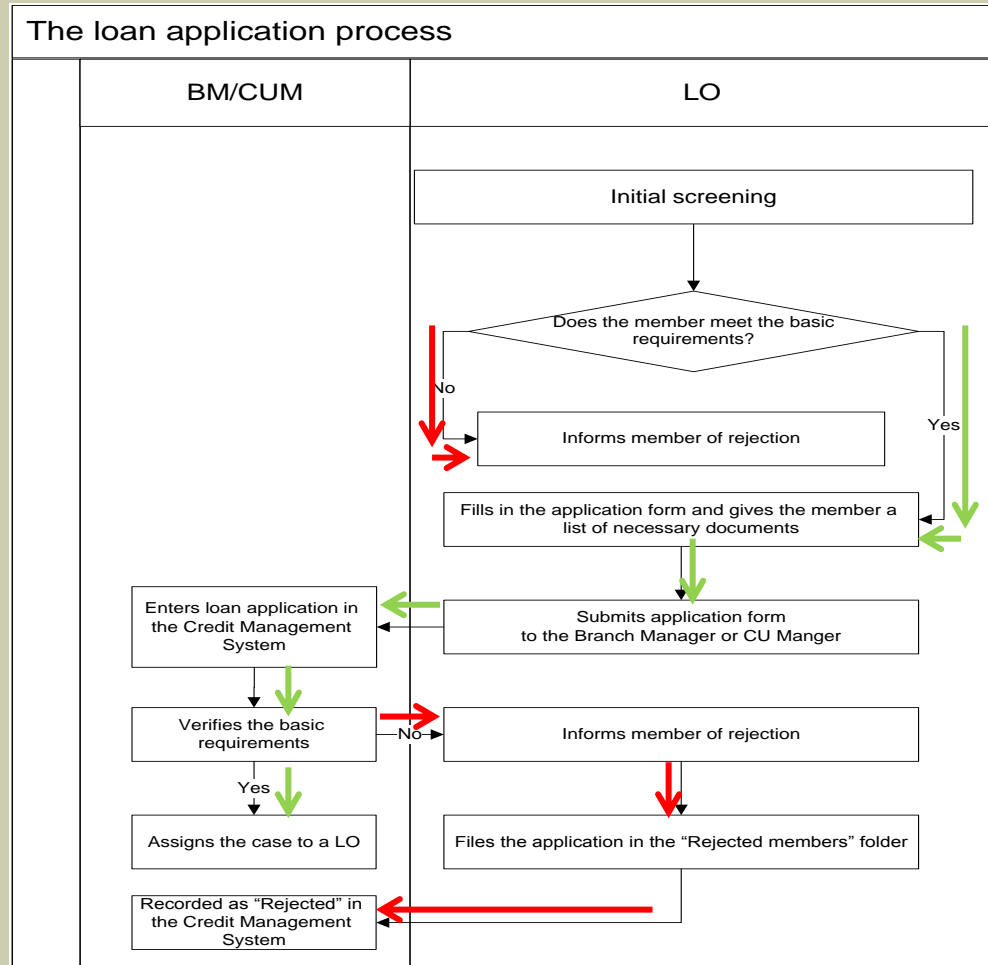
During acquisition

- Shake hands with clients and look them in the eyes
- Be confident
- Listen to what the client is saying
- Engage client in a conversation about his or her farm
- Weave in the questions for which you are seeking answers
- Stay calm (even if client complains about previous experiences with financial institutions)

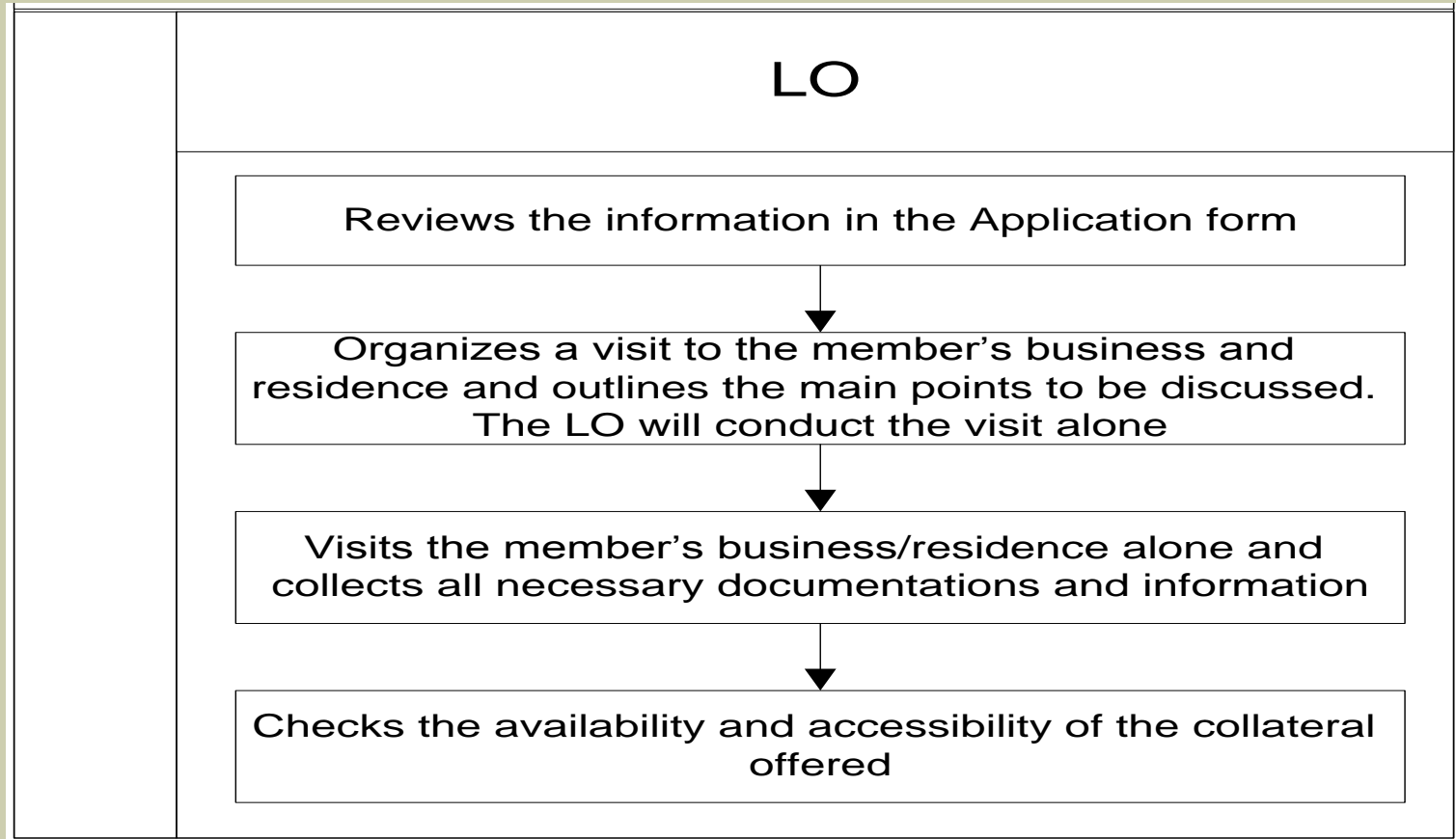
After acquisition

- Follow up on meetings

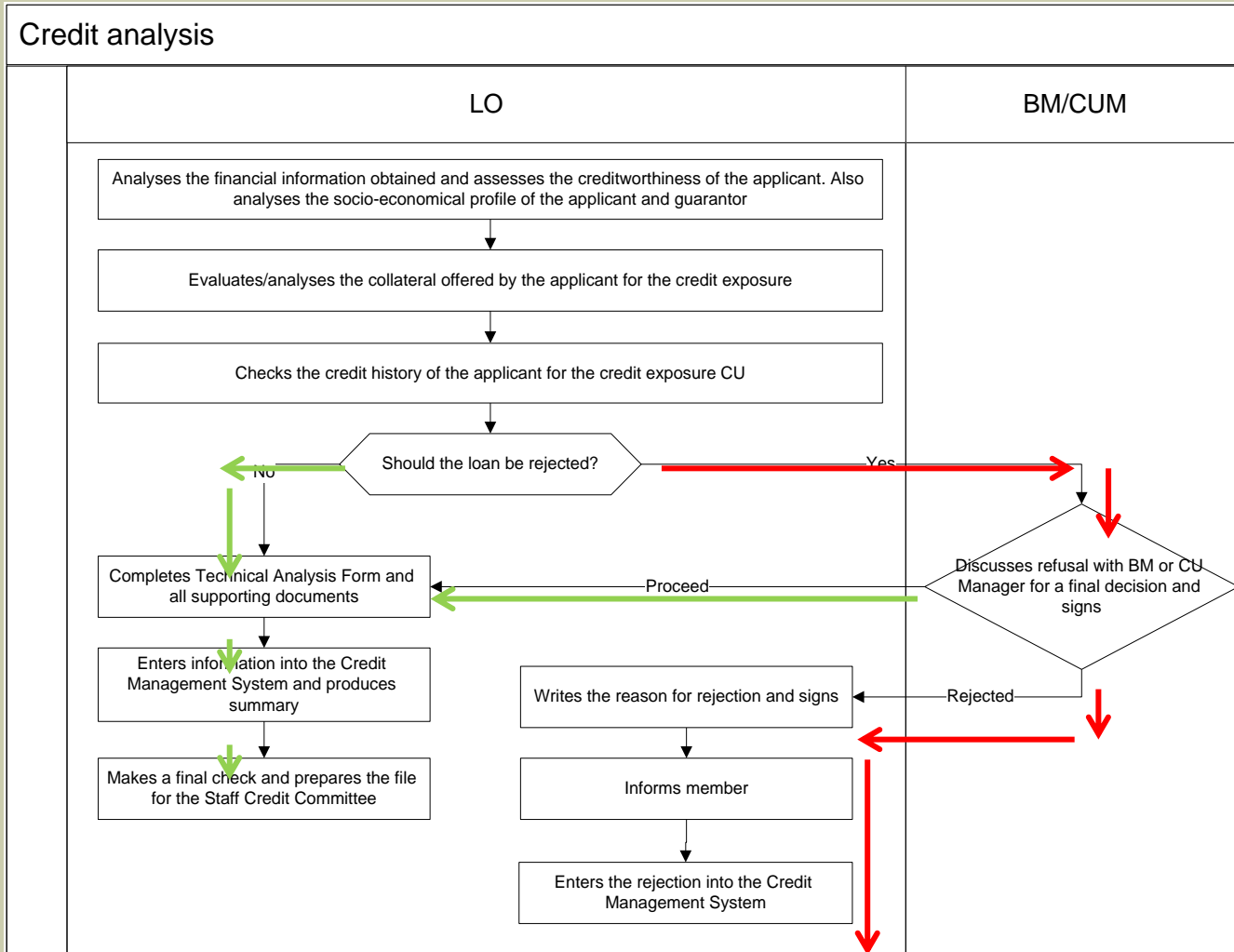
3. Application



4. Client Visit - Planning



5. Credit Analysis



5a. Credit Analysis – Assessing Criteria

Loan amount	Loan product
XAF 100,000 to XAF 500,000	micro agricultural business loan
XAF 500,001 to XAF 6,500,000	very small agricultural business loan
XAF 6,500,001 to XAF 25,000,000	small agricultural business loan
XAF 25,000,001 and up	medium agricultural business loan

5b. Credit Analysis – Micro Business Loans

•Based on:

- repayment capacity
- character and willingness to repay
- reputation in the community
- capital and collateral
- cash flow
- credit history

•Basically:

- No (financial) records → verbal information from applicant + cross-checks (observations, etc.)
- Reputation of the member is of the utmost importance

5c. Credit Analysis – Very Small Loans

- **Based on:**

- repayment capacity
- willingness to repay the loan
- credit history

- **Basically:**

- No (financial) records → verbal information from applicant + cross-checks (observations, etc.)

5d. Credit Analysis

- **Within the 3 different “technical analysis” forms, be able to briefly describe:**
 - Basic information on the member (names, age, account, etc.)
 - Family’ composition (number of dependents)
 - Business historic and description, managers’ skills according to the ALO/LO, etc.
 - Financial information classified depending on the business (crops production, livestock production, other type of business)
 - BS and future CF (for all the forms) (only for SME form: more data: BS according to the applicant + BS according to the ALO/LO + historical CF + more ratios to interpret)
 - For the form for “very small” and “SME” loans: historical P&L (only for SME form: more data: P&L according to the applicant + P&L according to the ALO/LO + more ratios to interpret)
 - Basic info on collaterals & guarantors
 - Opinion’ ALO/LO on whether the loan should be granted or not.
- Do not describe these forms in detail, a specific time will be dedicated to the understanding of those files in another lesson.

5e. Credit Analysis

- **What is the difference between a shorty and a guarantor!**
- **Explain the following:** After analysis and before the Staff Credit Committee, a credit file must contain:
 - The loan application
 - The technical analysis guide duly filled
 - All documents supporting the analysis (copies of invoices, copies of records, etc.)
 - Copy of the ID applicant
 - All necessary forms filled (collateral form, etc.)

5c. Credit Analysis – Small and Medium Loans

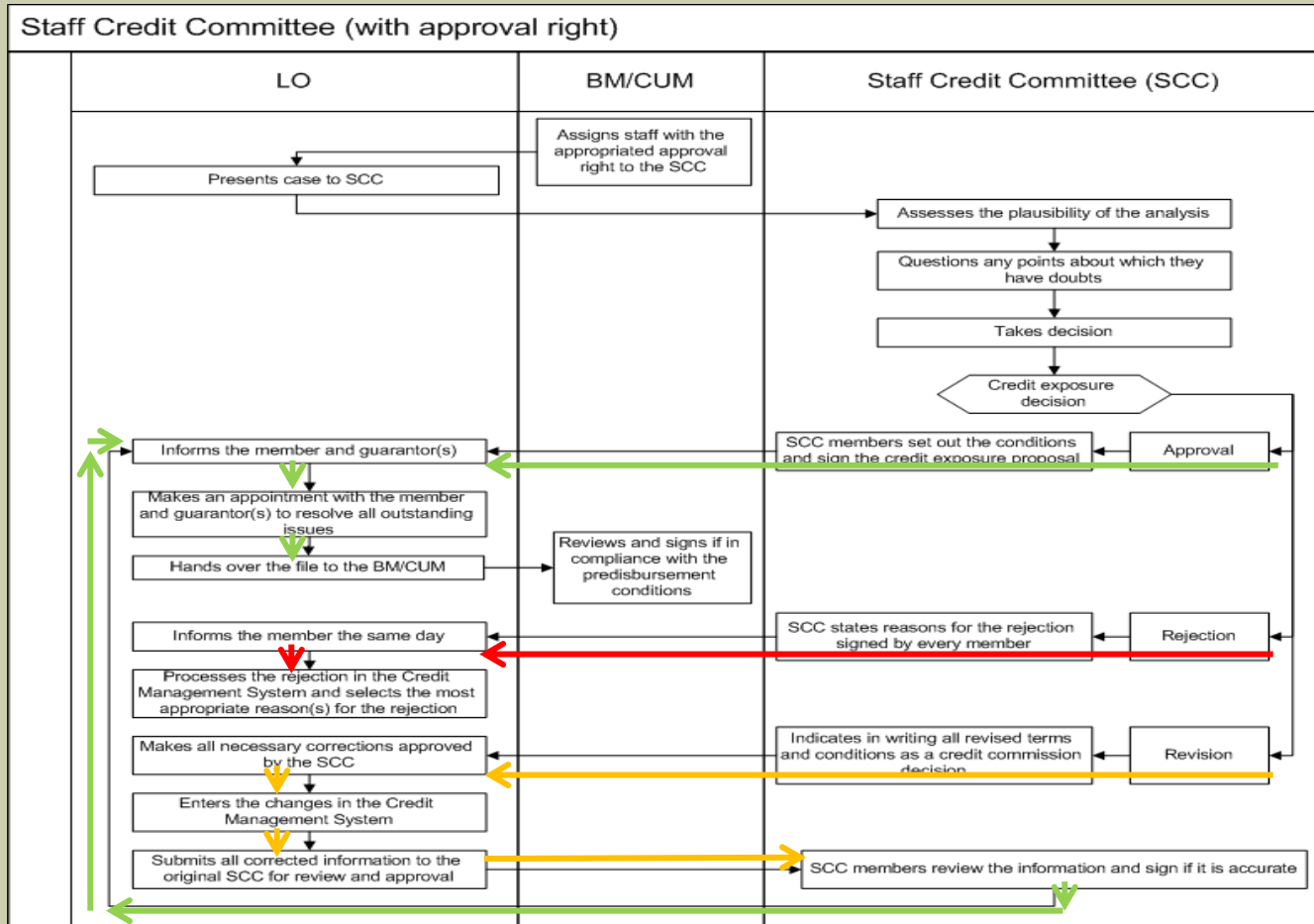
- **Based on:**

- the market in which the member operates, the position of the member in this market, and the competition
- the ownership and management structure of the business
- the company's financial situation
- the project for which the member is seeking funding
- the credit history

- **Basically:**

- The existing documentation (financial records, etc.) should be collected and cross-checked

6. Loan Grant Process - SCC



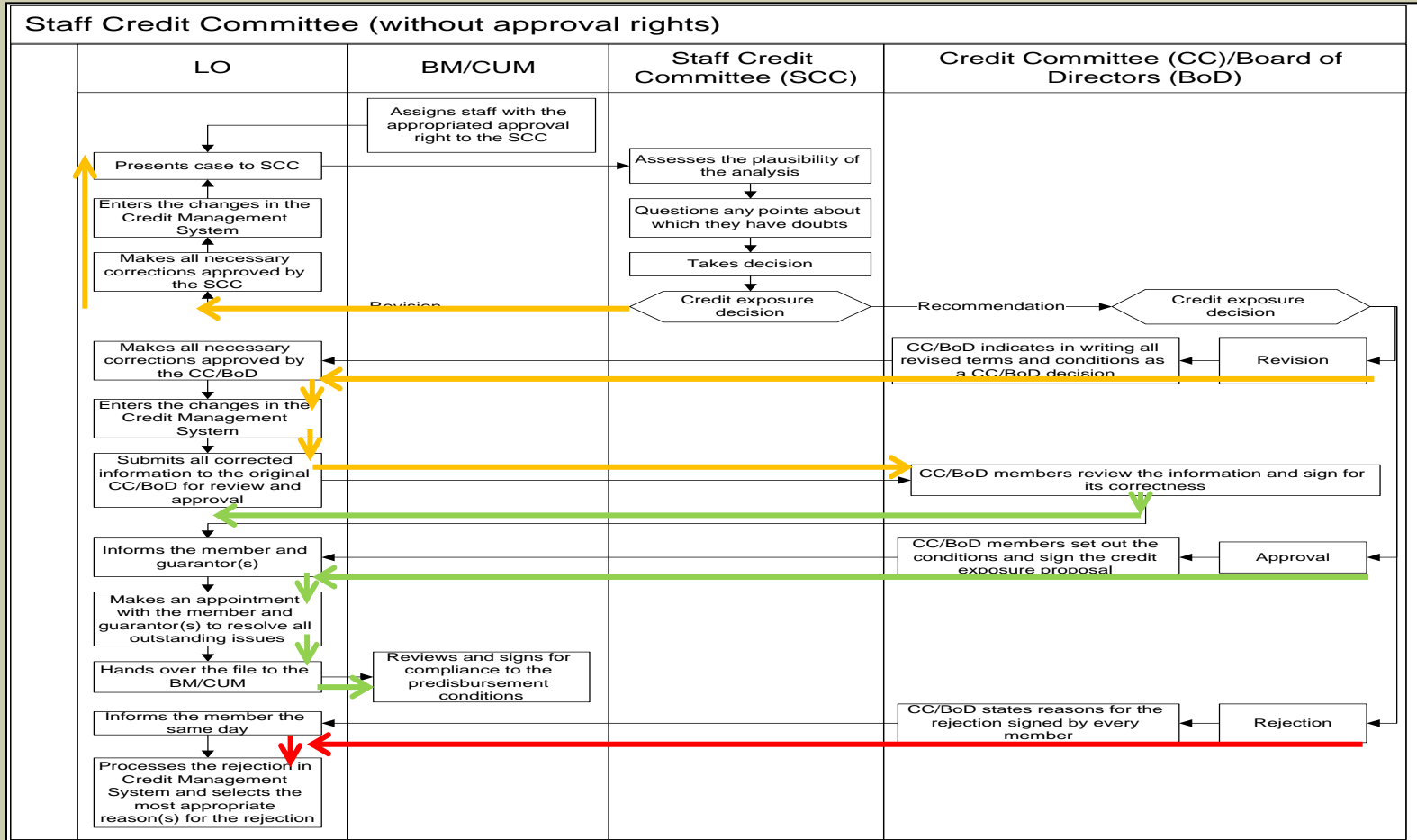
6a. Loan Grant Process - SCC

- **The staff credit committee (SCC) is made of (at least) 3 people:**
 - The LO/ALO that present the case
 - 2 decision-maker (that are not the LO/ALO that assessed the case). These decision-maker have the right to approve, reject the case or ask for its revision. Those 2 other people can be (depending on the credit union): manager, main LO, accountant, assistant manager, other LO, etc.
- **Proceeding of the SCC:**
 - Understand the business (its management, etc.)
 - Check the plausibility and truthfulness of the case
 - Cross-check the financial data written in the technical analysis form (e.g.: does the feed planned for this livestock match the needs of the animals? Do the yields seem realistic? Etc.)
 - Check that the proposition of the LO matches the needs of the business

6b. Loan Grant Process - SCC

- **At the end of the SCC, the 2 decision-makers decide whether the case will be:**
 - Approved
 - Rejected
 - Revised
- **For each of these case, in the minutes of the SCC must be written:**
 - The conditions relatives to the approval
 - The reasons for rejection
 - What should be revised and why (for instance the CF was not correct and the LO/ALO must complete it, or there was missing information the LO/ALO must complete, etc.)
 - The minutes of the SCC are signed by the 3 members.
 - Member should be informed as soon as possible after the SCC about the decision.

6c. Loan Grant Process – SCC w/o approval rights



6d. Loan Grant Process – SCC w/o approval rights

- The difference with this SCC is that the SCC is not allowed to take the final decision. However, the proceeding remains the same (at least 3 members, etc.)
- Therefore, this SCC must judge the case. If they judge the case must be revised, the case has to be revised before it goes to CC/BoD. If the case doesn't need to be revised, then the SCC make a RECOMMENDATION to the on whether they would:
 - Approve the case
 - Reject the case
- The reasons are written in the minutes and signed by all the members of the SCC.
- Then, the case goes to the CC/BoD. The LO/ALO who assessed the case present it to the CC/BoD. Like in SCC, the members of the CC/BoD ask questions, etc. and take one of the following decision:
 - Approval
 - Rejection
- The decision and their reasons must be written in the minutes of the CC/BoD.

6e. Loan Grant Process - Disbursement

- Should a loan be disbursed?
- It depends on:
 1. The quality of the analysis (made by the LO)
 2. The “quality” of the applicant (his/her reputation and willingness to repay)
 3. The results of the financial analysis:
 - Financial assessment
 - Investment plan
 - Credit history
 - Collateral

6f. Loan Grant Process – SCC Roles

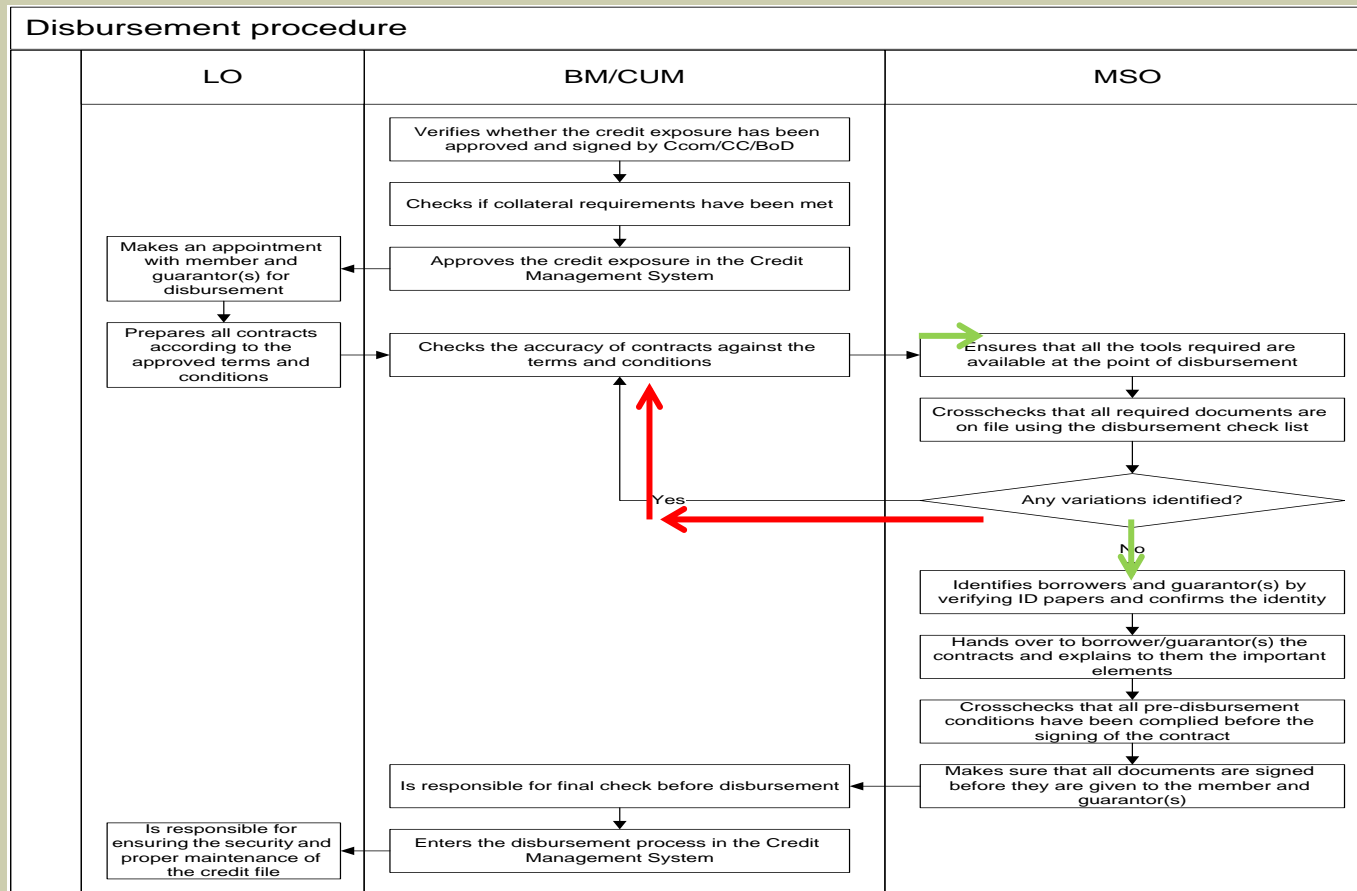
- **Organizing the SCC:**

- Choose a specific day per week on which SCCs will take place
- Be available for ad-hoc SCCs if LOs request them
- Use the SCC to do some short coaching sessions and be available to answer questions

- **Composition and responsibilities:**

- At least two members (i.e. CU manager, accountant) + LO of the case (= at least 3 members per SCC)
- Exposures: above savings and up to CU manager's approval level
- Function: approve, review (in case approval limit is too low), reject
- Verifies that LOs have cross-checked what is stated in the financial analysis, e.g. through questioning

7. Disbursement



For more resources please visit AgriFin's website

www.AgriFin.org

We welcome your feedback to help us further refine these training materials. Please contact us at agrifin@worldbank.org.