Lending to the Agriculture Sector
– A Toolkit

Agrifin Webinar
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Lawrence Camp, USAID
Agriculture Sector Lending Unit Toolkit

• The genesis of and logic for the toolkit
• The approach taken in its design
• What the toolkit contains
• Request for support from banks in DRC
• ‘Training’ vs. ‘specialized industry lending’ approach
• Accepted by banks, and beta test was successful.
• Lenders are rational economic actors.
• A $1,000,000,000,000,000 opportunity for agriculture sector lending.
• It's all about profit and risk.
Approach Taken – The Credit Cycle

**Planning**
- Strategic plan:
  - Performance objectives
  - Credit policies
  - Portfolio composition
- Business plan:
  - Resource allocation

**Target Markets**
- Expertise:
  - Competitive advantage
  - Strategic and business plans
  - Capabilities
  - Training and resource requirements

**Risk Acceptance Criteria**
- Terms by industry
- Terms by product
- Revise and update

**Origination**
- Prospects and leads
- Customer requests
- Referrals
- Application of target markets and risk acceptance criteria

**Credit Analysis**
- Macroeconomic factors
- Industry risk
- Business risk
- Management
- Financial statements
- Cash flow
- Borrowing causes
- Repayment capacity
- Projections
- Credit limits

**Loan Structuring and Negotiation**
- Amount
- Tenor
- Repayment schedule
- Other terms and conditions
- Covenants
- Security
- Pricing

**Application and Approval**
- Credit application package:
  - Analysis and conclusions
  - Key risks and mitigants
  - Recommendations
- Approval requirements:
  - Sponsoring officer
  - Business manager
  - Product and industry specialists
  - Independent credit department review and decision

**Repayment**
- Principal
- Interest

**Loss**
- Collection efforts
- Foreclosure
- Bankruptcy

**Problem Loan Management**
- Early recognition
- Loan transfer to workout department
- Strategy and action steps
- Renegotiation
- Feedback to planning

**Monitoring**
- Continual monitoring
- Scheduled reviews
- Danger signs
- Significant developments
- Covenant compliance
- Security value
- Risk ratings
- New business opportunities

**Disbursement**
- All documents executed
- Check:
  - Representations and warranties
  - Conditions precedent
  - Cross default
  - Material adverse change
  - Draw request in order

**Independent Credit Audit**
- Credit process portfolio
- Policy conformance

**Portfolio Management**
- Orderly repayment and terms met
- Payment problems or terms not met
Three Tools in One Resource Package

- Implementing Framework
- Agricultural Lending Field Guide
- Collection of best practice tools and templates
The Toolkit

The Elements

• Diagnostic
• Toolkit
• Implementers Guide
Rapid Assessment Tool

- Management Commitment
- Market Segmentation
- Credit Risk Management
- Operational Efficiencies
- IT and MIS

...can this be a profitable target market and what will it take to get the institution in position to effectively lend to this industry.
Agriculture Sector Lending Toolkit Structure

- Introduction
- Research and Planning
- Credit Product Development
- Implementation
Introduction

• Defining agricultural lending and value chain finance
• Sub-Saharan Africa – Opportunities Analysis
• Making the business case
Research and Planning

• Sector market mapping
• Strategic development
• Establishing an agriculture sector lending unit
ANNEX B. INDICATIVE SCOPE OF WORK FOR MARKET ASSESSMENT

The core elements of the assignment consist of the following:

I. Introduction
   A. Overall assessment of agriculture market
      1. Description of current macroeconomic situation
      2. List macroeconomic agriculture indicators
      3. Description major economic drivers
   B. Number of firms in agriculture sector listed by official government data and the sectors
      1. Comprehensive internal analysis of SMEs in the agriculture sector; review the
         bank’s list of economic subsectors.
      2. Comprehensive analysis on historical performance of sub sectors (the analysis
         should include detail characteristics, SWOT, and sensitivity analysis of each
         subsector. Based on comprehensive research, determine the most profitable and
         scalable subsectors for the bank

II. The characteristic and size of market demand for financial services

   Accurate data on characteristics of respondents: The data will allow the consultant to start
   conducting sampling for each segment, for what financial services they have and need:

   A. Background information on the respondents:
      1. Size of the businesses:
         a. Revenues
         b. Total assets
      2. Type of business
      3. Location
      4. Industry
      5. Number of employees
   B. Characteristics of financial products they currently have:
      1. Loans
         a. Types of loan (working capital and/or investment)
         b. Terms (rate, fixed or variable, fees, collateral, installment frequency, etc.)
         c. Loan size
         d. The FIs and the marketing channels (how they learn about the products)
The Credit Cycle – Credit Product Dev.

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**Independent Credit Audit**
- Credit process portfolio
- Policy conformance

**Documentation and Legal Factors**
- Standard or separately prepared
- Modification by counsel
- Legal opinions
- Guarantees
- Collateral assessment
- Due diligence legal verification

**Application and Approval**
- Credit application package:
  - Analysis and conclusions
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Credit Product Development

- Guidelines for new product development
<table>
<thead>
<tr>
<th>Product name</th>
<th>Production/pre-harvest financing, post-harvest finance, purchase order finance, inventory finance, short-term equipment rentals, leases, etc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product description</td>
<td>A brief summary of the product, such as target borrowers, loan purpose, and general terms and conditions of the loan.</td>
</tr>
<tr>
<td>Target market</td>
<td>The type of business and activity the product is meant to finance. For example, crop farmers for pre-harvest input purchases or equipment suppliers needing inventory financing.</td>
</tr>
</tbody>
</table>
| Repayment terms | - Maximum term of the loan in months or days.  
- Frequency of principal and interest payments, i.e. monthly, quarterly, or at maturity. This could also allow for irregular payment plans tied to agricultural sales. |
| Interest rate and fees | Normal interest rate allowed  
Other fees associated with the loan, such as commitment, application, or past due fees |
| Loan amount | Maximum and minimum loan amounts |
| Eligible borrowers | This might include:  
• Minimum amount of experience in activity being financed  
• Verifiable sales to commercial buyers  
• Checking and/or deposit relationship with the bank for minimum period  
• Average balance of at least x times the monthly interest payment  
• Business within x kilometers of branch office |
| Guarantors | Personal guarantees might be required by all individual owner(s) of borrower. |
| Other requirements | Other requirements might include:  
• Crop insurance from an insurer acceptable to the lender (if available)  
• Additional collateral acceptable to agricultural lending unit  
• Electronic payment transfer directly from borrower’s bank account |
### The Credit Cycle – Credit Product Dev.

<table>
<thead>
<tr>
<th><strong>Product name</strong></th>
<th><strong>Equipment Financing</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product description</strong></td>
<td>Finance medium-term and long-term capital expenditures</td>
</tr>
<tr>
<td><strong>Target market</strong></td>
<td>Farmers and agricultural producers as well as other VC participants</td>
</tr>
<tr>
<td><strong>Repayment terms</strong></td>
<td>Maximum of 5 years with fixed monthly or quarterly principal installments plus interest. Maximum loan shall not exceed 80% of the value of the subject asset. The loan tenor shall not exceed half the depreciable life of the fixed asset.</td>
</tr>
<tr>
<td><strong>Interest rate and fees</strong></td>
<td>Interest rate option of fixed or adjustable for the tenor of the loan Fee: none</td>
</tr>
</tbody>
</table>
| **Loan amount** | Minimum: $10,000 or equivalent in CDF, EUR, SAR  
Maximum: $250,000 or equivalent in CDF, EUR, SAR |

#### Eligible borrowers
- Farmers
- Farming cooperatives
- Agri-food and food processing
- Agricultural equipment manufacturers
- Equipment dealers and retailers
- Logistic businesses (storage, packaging, transportation, and food distribution)
- Grain handlers, transporters and processors
- Input suppliers (seed, fertilizer, pesticides)
- Food and livestock distributors
- Importers
- Exporters
- Timber harvesting

#### Guarantors
None

#### Other requirements
- Two years of accounting statements or tax returns
- Valid written invoice for new equipment
- Independently appraised value for secondhand equipment
- Insurance on assets with pledge of insurance to the bank
The Credit Cycle - Implementation

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Risk Ratings

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  - Recommendations
- Approval requirements:
  - Sponsoring officer
  - Business management
  - Product
  - Productivity and efficiency specialists
  - Independent credit department
  - Credit division decision
Implementation

- Loan policy and procedures manual
- Origination
- Underwriting analysis
- Loan servicing
- Portfolio management
- MIS
ANNEX H. AGRICULTURAL LENDING GUIDELINES

Attached hereto as part of the annex are Excel spreadsheets that provide templates that can be customized to serve the needs of FIs. As you revise and implement the system, you will need to ensure that your Core Filing System can be parameterized to accept the data you are collecting. The tools essential for part of the loan application and documentation process are outlined below.

Customer Screening

Lending money is a risk — you might not get it back. So, you will do everything possible to try and make sure you get it back through client selection, careful loan appraisal, asking for security or guarantees, building loyalty, and so on. Using a mix of all of these has made it possible to lend to even very small-scale entrepreneurs with limited assets. It requires an initial investment of time, which is costly but less costly than making loans that cannot be repaid. The mix of activities typical of farm-based households make collecting information on them particularly time-consuming, so an institution wishing to concentrate on this target audience can prepare a list of basic criteria that will immediately rule someone in or out of a chance of getting a loan. This way, staff time will not be wasted gathering detailed information about a person, only to find out that he/she does not qualify for a loan.

These eligibility criteria are highly context-specific, and any lending institution must carefully consider what criteria it will include in such a list, in order not to exclude potentially good clients.

There are three core criteria to consider:

Previous loans. Lenders’ back-office staff review whether the farmer interested in obtaining a loan already has a credit track record with the FI. This information is automatically checked in the computer system by entering the farmer’s name and ID number. If the person has accumulated more than 30 days overdue on the previous loans, access to future loans is denied and the loan request is turned down immediately.
# ANNEX J. STEP-BY-STEP LENDING PROCESS

**Name of Client:**

<table>
<thead>
<tr>
<th>Steps</th>
<th>Form Used</th>
<th>Days to Complete</th>
<th>Date Completed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification and Introductions with New Customer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First client contact — screening with credit officer</td>
<td>Screening form</td>
<td>1 day</td>
<td></td>
</tr>
<tr>
<td>Information session — client informed about agriculture products</td>
<td>-</td>
<td>Same day</td>
<td></td>
</tr>
<tr>
<td>If the credit officer determines that the client has a</td>
<td>Loan application form</td>
<td>Same day</td>
<td></td>
</tr>
<tr>
<td>qualifying project, he/she assists the client in completing the</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>agriculture loan application form</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit officer opens a client file</td>
<td>Client file cover sheet</td>
<td>Same day</td>
<td></td>
</tr>
<tr>
<td>Credit officer adds client to agriculture pipeline report</td>
<td>Pipeline report</td>
<td>Same day</td>
<td></td>
</tr>
<tr>
<td>After completing loan application, borrower gives documents</td>
<td>-</td>
<td>1 day</td>
<td></td>
</tr>
<tr>
<td>(collateral, references) to agriculture credit officer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit officer assigns a day to call the client and get</td>
<td>Loan analysis worksheet</td>
<td>Same day</td>
<td></td>
</tr>
<tr>
<td>more detailed information by phone</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit officer carefully examines all documents</td>
<td>Loan analysis worksheet</td>
<td>1 day</td>
<td></td>
</tr>
<tr>
<td>related to collateral, paying particular attention to the status of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>inventory land records, coordinating with legal staff and government</td>
<td>Loan analysis worksheet</td>
<td>1 day</td>
<td></td>
</tr>
<tr>
<td>as necessary</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit officer reviews the borrower’s relationships and</td>
<td>Loan analysis worksheet</td>
<td>1 day</td>
<td></td>
</tr>
<tr>
<td>determines if he or she can be placed into a group of similar</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>borrowers in the area</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Credit Analysis</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit officer conducts due diligence by carrying out reference</td>
<td>Loan analysis worksheet</td>
<td>1 day</td>
<td></td>
</tr>
<tr>
<td>checks of suppliers, customers, and, where possible, bank records of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>customer, and checks market and competitors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit officer meets guarantors and checks collateral</td>
<td>Loan analysis worksheet</td>
<td>1 day</td>
<td></td>
</tr>
<tr>
<td>Credit officer and agriculture director identify which outstanding</td>
<td>Loan analysis worksheet</td>
<td>Same day</td>
<td></td>
</tr>
<tr>
<td>issues remain and decide whether to continue with this client</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit officer makes follow-on surprise site visit to the company to</td>
<td>-</td>
<td>1 day</td>
<td></td>
</tr>
<tr>
<td>inspect all company premises, inventory, and internal books, and</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>checks inflow of customers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit officer analyzes final cash flow, income statement, and</td>
<td>Loan analysis worksheet</td>
<td>1 day</td>
<td></td>
</tr>
<tr>
<td>balance sheet prognosis; structures the loan accordingly, and</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>completes analysis, write-up, and final documentation check</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit officer and lawyer(s) review final documents and forwards</td>
<td>Loan memorandum</td>
<td>Same day</td>
<td></td>
</tr>
<tr>
<td>loan memorandum to relationship manager</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relationship manager reviews and provides approval for</td>
<td>Loan memorandum</td>
<td>1 day</td>
<td></td>
</tr>
<tr>
<td>submission to agriculture credit committee</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Implementers Guide

• Manual to guide an internal or external implementer.
• Long term objective to trained group of consultants who can implement – particularly in conjunction with a partial guarantee program
Summary

- Good platform – but work in progress
- Not reinventing – approaching from a banker’s perspective
- Many useful tools – but don’t circumvent strategy and product development.
- More attention needed on financing of post-harvest investments
- If effective in increasing credit to ag sector – looking at other spec lending industries such as clean energy and healthcare
Download the Toolkit from AgriFin’s website at www.AgriFin.org

Learn More about USAID’s E3 at: www.USAID.gov