

# Training Manual: The Basics of Financing Agriculture

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Module 1.2 | Overview of the Agriculture Credit Cycle

# Acknowledgement

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*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

<b>LEARNING OBJECTIVE</b>	<b>Agriculture Loan Officers (ALOs) require an understanding of the agricultural process from client first contact to loan recovery. The agriculture credit cycle consists of key decision steps that will assist to evaluate and implement an agricultural loan.</b>
<b>SCOPE</b>	By the end of this presentation, the session will provide: <ul style="list-style-type: none"><li>• An overview of the credit cycle process</li><li>• An understanding of application processing and clearance</li><li>• An analysis of loans through quantitative modelling and qualitative review</li><li>• Knowledge of the roles and responsibilities of credit committees</li><li>• An understanding of disbursement scheduling</li><li>• An overview of loan monitoring, planning, implementation, and repayment</li></ul>
<b>TARGET</b>	Agriculture loan officers, trainers, agriculture experts with limited financial analysis training, and other professionals interested in agriculture financing
<b>DURATION</b>	1 hour



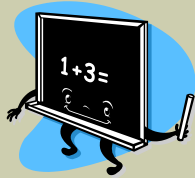
# Content

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1. Introduction
2. Client Acquisition
3. Application
4. Loan Analysis
5. Credit Committee
6. Disbursement
7. Loan Monitoring
8. Repayment

# 1. Introduction

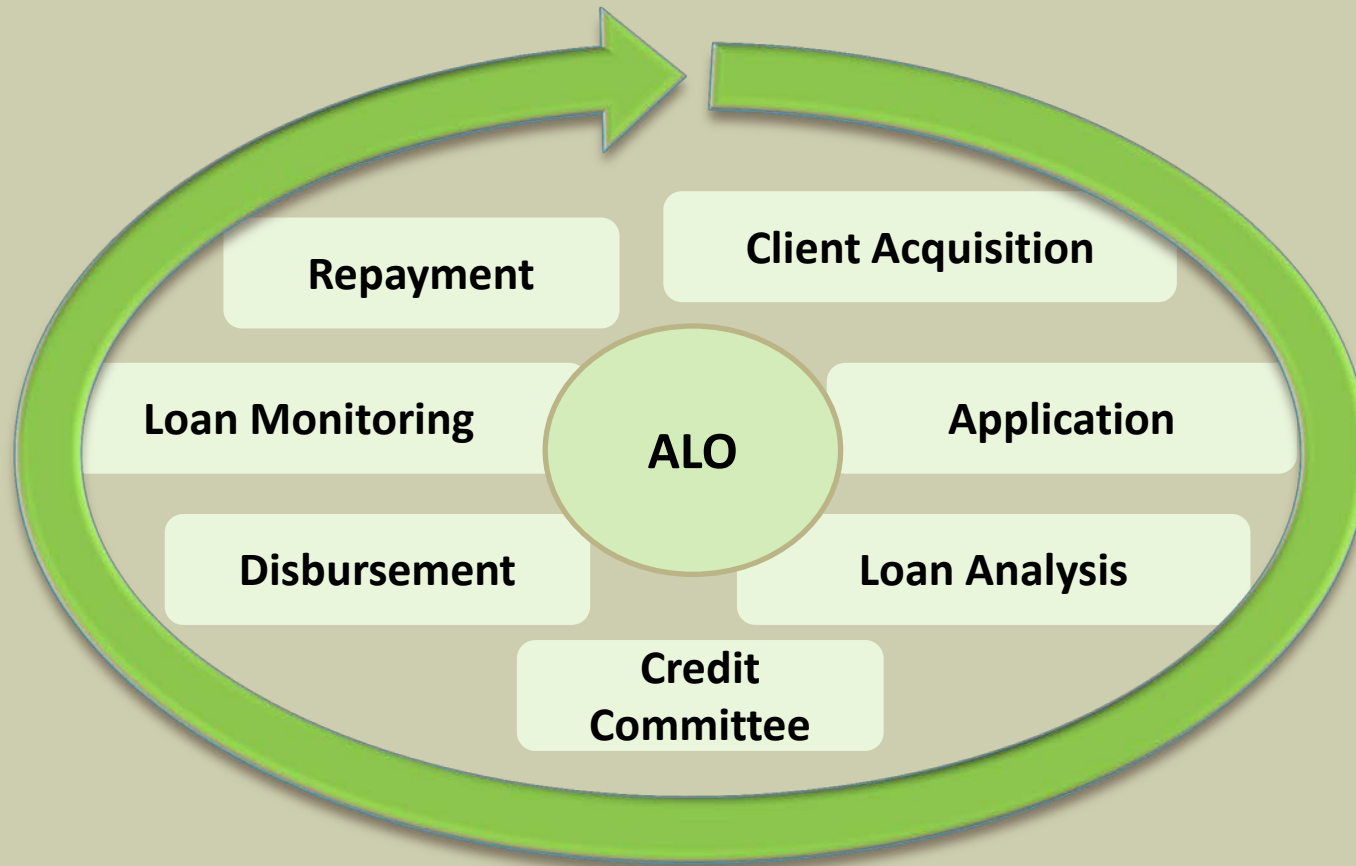
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Can you map the process flow of a credit cycle? Compare it with the chart on the next page.

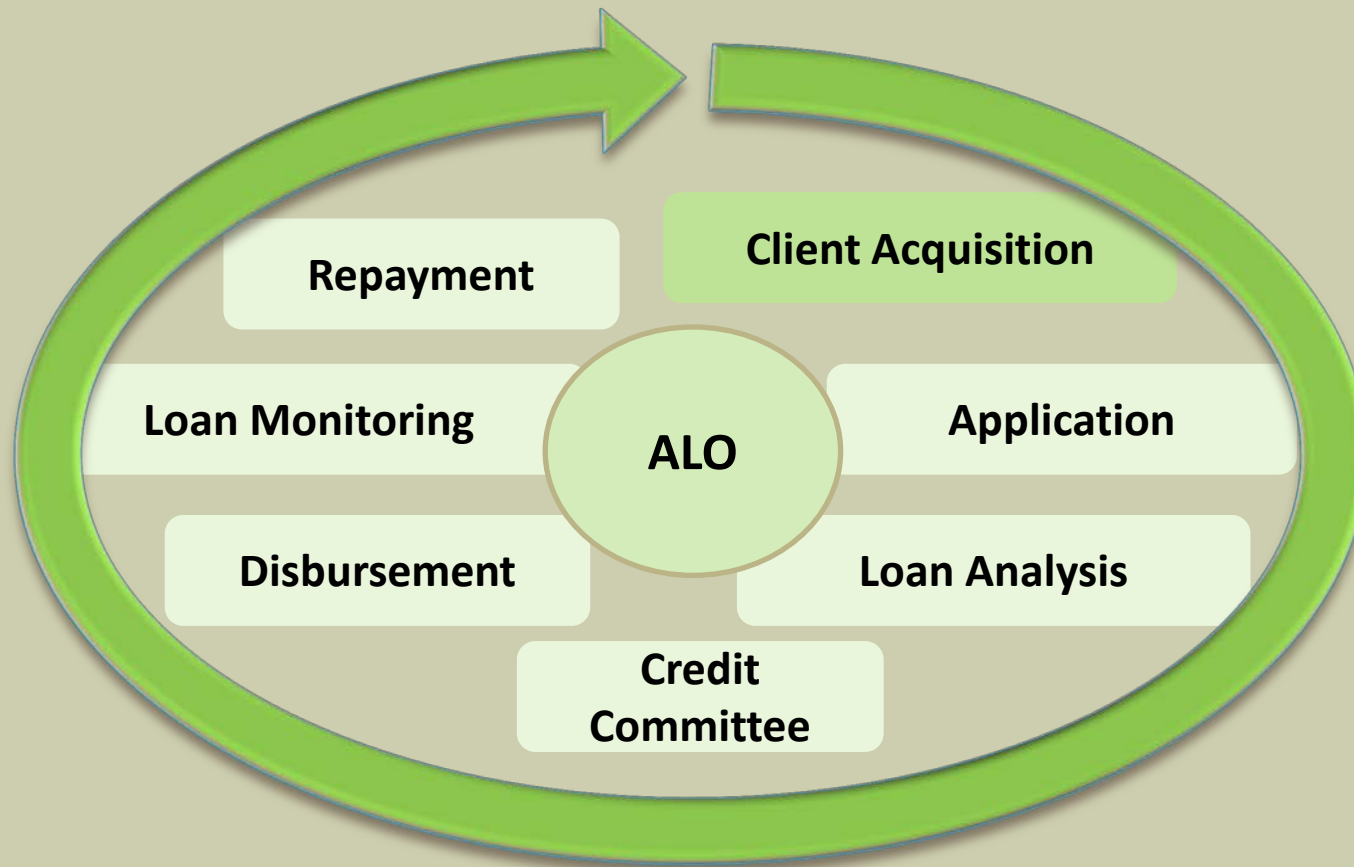
# 1a. Introduction: Flow of a Credit Cycle

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## 2. Client Acquisition

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# 2a. Client Acquisition: Client Protection

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## 1. Prevention of over-indebtedness

- Take adequate care to determine client capacity to repay without becoming over indebted. Also Implement internal risk management systems.

## 2. Transparency

- Communicate clear, sufficient and timely information in a manner and language clients can understand and make informed decisions.

## 3. Responsible pricing

- Pricing, terms and conditions will be set in a way that is affordable to clients while allowing for financial institutions to be sustainable.

## 4. Fair and respectful treatment of clients

- Place safeguards against corrupt and aggressive behaviour by staff and agents

## 5. Privacy of client data

- The privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions.



# 3. Application





## 3a. Application: First contact

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- **Either member comes into the branch or an acquisition visit is made to the member's premises**
- **Present your Credit Union**
  - Products & Services, Loan process, and Obligations)
- **Inform the member about the process and his options**
- **Ensure that he/she fully understands his/her obligations and the loan terms:**
  - Propose that the member come to credit union to submit his/her application
  - ALO/LO takes application (project, loan amount, maturity, repayment capacity, sales, expenses, equity)
  - Copy of ID and business registration documents
  - Member file is established

**Output** 

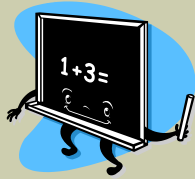
**Filled-out application form**

## 3a. Application: First contact (contd.)

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Quality of canvassing largely determines the success of the first contact. It is crucial for the member to understand what the credit cycle is and what conditions are attached.

## 3b. Application: Loan objectives



In your experience for what purposes do farmers undertake loans? Write them down and compare with the list below (and let us know which ones we missed out!)

- Investments in working capital
- Fixed assets
- Combination of the above, with the intention of expanding existing activities
- Modifying/improving products and/or production processes
- Increasing competitive advantage
- Decreasing overheads and running costs
- Starting new business lines etc.

## 3c. Application: Case Study

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- **Annabelle** is single. She has an ID (issued on 20/12/2011): 55 55 55 55 (she of course brought her ID so the ALO can make a copy). She was born in Bambili on 01 April 1979. She still lives in Bambili. She has no kids. Her phone numbers are: 77 77 77 77 and 95 95 95 95. She has been a member of CCAST Agric Credit Union for 3 years. She is a farmer but has no qualifications in agriculture. She is simply a member of the CU. She has 1ha of land. She grows vegetables (tomatoes, pepper, onions, lettuce) and maize from March to July. She has no other source of income...

## 3c. Application: Case Study (contd.)

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- ... It is now August and she would **like XAF 600,000 to buy inputs (seeds, fertilizers, pesticides) and pay her workers to grow vegetables**. She thinks she can repay the loan in 10 monthly instalments. She needs a grace period of 4 months and could cover the interest with the maize she harvested in July. She believes she could repay **XAF 60,000 to 70,000/month**. She wants to know about the interest rate and repayment plan. It would be **her first loan**. Her brother is a salary earner and maybe he would agree to be her guarantor but she is not sure. She can give her **brother as a reference** (Samuel ETO, 74 77 77 77). Her business has no name...

## 3c. Application: Case Study (contd.)

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- ... She has been a farmer for 6 years and the land is owned by the family (**value about XAF 1 million**). Usually she sells vegetables from mid-September to January on a regular basis, earning about XAF 50,000 a week. She sells maize when necessary but tries to wait as long as possible so the prices can increase a little. She keeps half of her production for her own consumption. Depending on the year, she will **earn between XAF 150,000 and 200,000 for her maize...**

## 3c. Application: Case Study (contd.)

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- ... Each August she purchases **inputs for XAF 420,000** (20,000 for seeds, 200,000 for fertilizers and 200,000 for pesticides). From start of August to end of January she pays two workers **XAF 50,000 per month** each. February onwards she pays **~XAF 20,000 per month** for workers to take care of maize farm (preparing the land, clearing, seeding, weeding, fertilizing and harvesting). She has few other expenses (food, clothing, electricity, etc.) amounting to **~XAF 30,000 per month**. At the moment she still has her whole maize harvest (she has not sold anything yet) the harvest was normal, no better or worse than usual, but she has no idea how many kg she has. She has no other bank accounts and she has about **XAF 5,000 cash at hand** now, and she probably has about XAF 25,000 more cash at her house. She belongs to a Njangui (every month she pays in **XAF 5,000** and will receive a payment of XAF 50,000 in October)



## 3d. Application: Case Study (continued)

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- **ALO** should welcome Annabelle and make her comfortable. He should then politely ask questions on the loan. ALO should verify applicant's supporting documents (ID, business records) and make copies.
- The ALO knows that she has XAF 150,000 in savings. The ALO knows that you can achieve a yield of 1.8 t/ha with Anna's maize-growing methods. The current price of maize is about XAF 180 per kg.
- When the ALO has collected all the information he needs, he explains the procedure:
  - The application will be sent to the manager for a basic review to check her eligibility for a loan
  - Since he is the only ALO at this CU, the case will be assigned to him.
  - The ALO will organize a visit to her at her farm and house where he will ask questions on her business and lifestyle. This will include personal questions. The visit will last ~2 hours.

## 3d. Application: Case Study (continued)

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- Afterwards, he will assess her case and present it to Staff Credit Committee, which will discuss whether it should be approved or rejected. Since this case exceeds the manager's approval authority, the SCC will pass its recommendation on to the Credit Committee, which will review the case and approve or reject it. It is possible that the committee will want more information about the applicant. In this case, the ALO will contact her. Immediately upon receipt of Committee's decision, she will be informed, and if approved, the loan will be disbursed quickly.
- Review process can take 1 to 3 weeks, depending on availability of Credit Committee.
- The ALO should then ask her if she has any questions. If not, he thanks her for her trust and tells her he will be in touch soon.
- They shake hands and say good bye.

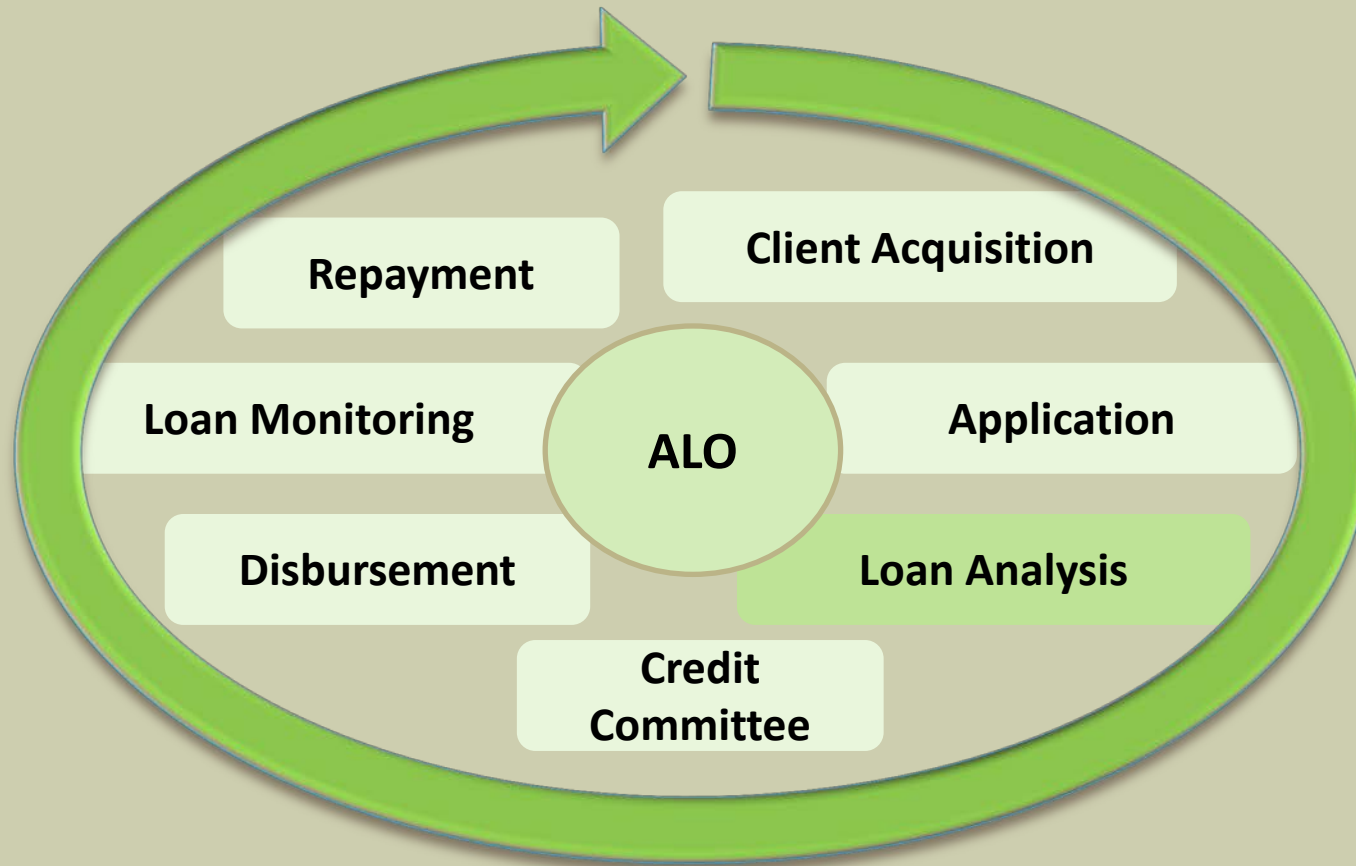
## 3e. Application: Case Study (continued)

The ALO uses the information to prepare a financial summary as below:

	Good day/ week/month (amount)	bad day/ week/month (amount)	Assets		Liabilities	
<b>Sales</b>	50,000	0	Cash	30,000	Providers	0
<b>Purchase</b>	0	420,000 (once a year)	Savings at CU	150,000	Informal loan	0
<b>Business Expenses</b>	20,000	100,000	Savings (in other banks, MFI...)	0	Formal loan with CU	0
<b>Household expenses</b>	30,000	30,000	Receivables	0	Formal loan with other banks, MFIs...	0
<b>Other income</b>	0	0	Stocks	324,000	Other liabilities	0
			<b>Fixed assets</b>	<b>1,000,000</b>		
			<b>Total</b>	<b>1,504,000</b>	<b>Total</b>	<b>0</b>

# 4. Loan Analysis

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# 4a. Loan Analysis: Visiting the client

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**Objective:** Collecting data on the member's business, household situation (stability), collateral via business documents, interview, references, etc. to later fill out following documents:

- Past financial information: sales, expenses, etc.
- Projected financial information: sales, expenses, etc. (based on member's planned project)
- Balance sheet
- Cash flow
- Member profile (seriousness, willingness to repay, morality, honesty, etc.)
- Analyse references to learn more about the member's business (neighbours, etc.)

**Output** → **Completed analysis form**



## 4b. Loan Analysis: Quantitative

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**Objective:** develop a solid understanding of the member's business and obtain an in-depth view of the key risks involved, based on member's **real situation**.

### Most important aspects of credit analysis:

- Develop financial statement using verified data
- Interpret financial statements using financial ratios and the qualitative aspects of the member's business
- Assessing member's skill as a business manager
- Assess general risks (e.g., market risks, etc.)

The most relevant aspects of the analysis and its key conclusions must be traceable to the greatest extent possible and must be understandable for third parties. It may in some cases be either impossible or inefficient to obtain the necessary supporting documents; in such cases it is better to rely on observations that have been cross-checked, even if they are not documented, than to include less information that is well-documented but that does not reflect the client's true situation.

## 4b. Loan Analysis: Quantitative (contd.)

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Credit analysis of small/micro businesses are often mainly based on oral information received from the member, cross checks, plausibility checks, analysis over time and comparative analysis are important to mitigate credit risk.

### Qualitative risk assessment

1. Market risk
2. Management risk
3. Business risk
4. Financial risk
5. Political risk
6. Regulatory risk



### Areas to be assessed

1. Market position
2. Ownership and management structure
3. Financial situation
4. Investment plan
5. Credit history
6. Collateral

# 4c. Loan Analysis: sample forms

## •Micro analysis guide

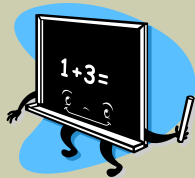
- [Analysis form for micro-loan \(under 500 000 FCFA\)](#)
- [Sample analysis form for micro-loan \(under 500 000 FCFA\)](#)

## •Very Small analysis guide

- [Analysis guide for very small loan](#)
- [Template for analysis for very small loan \(500 000-6.5 million FCFA\)](#)
- [Sample analysis form for very small loan \(500-6,5\)](#)

## •Repayment plan

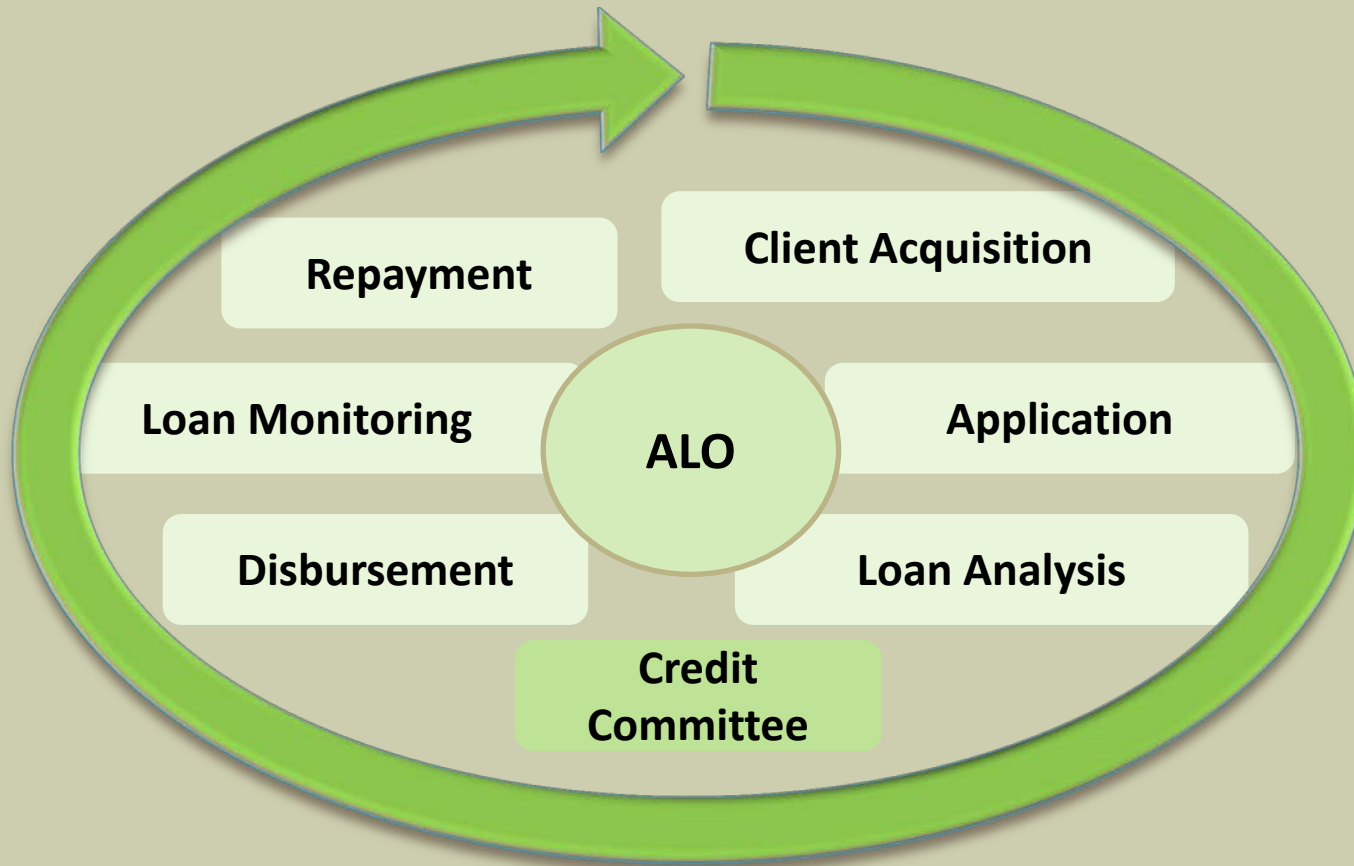
- [Sample repayment schedule \(Case of CamCCUL\)](#)



Can you identify the difference between the micro and small analysis forms?



# 5. Credit Committee



# 5a. Credit Committee: overview

Composition	Required Documents
<ul style="list-style-type: none"><li>• Minimum of 2 people with adequate approval levels</li></ul>	<ul style="list-style-type: none"><li>• Analysis sheet</li><li>• Investment plan (if necessary)</li><li>• Guarantee copies (mortgage, etc.)</li></ul>
Areas of Analysis	Required Data
<ul style="list-style-type: none"><li>• Character &amp; capacity of client</li><li>• Repayment capacity</li><li>• Equity</li><li>• Investment Plan</li><li>• Collateral</li><li>• LO's proposals re: loan amount, maturity, other conditions, etc.</li></ul>	<ul style="list-style-type: none"><li>• Profit &amp; Loss</li><li>• Cash flow statement</li><li>• Balance sheet</li><li>• Current financial situation</li><li>• Historical performance</li><li>• Projected performance</li></ul>

# 5b. Credit Committee: Staff

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**Objective:** Assess the information collected during member visit and decide if client is eligible for a loan.

Important prerequisites:

- Willingness to repay the loan, based on an assessment of personal character and credit history
- Sufficient payment capacity
- Solid managerial skills and good prospects on the market
- A sound investment plan
- Satisfactory collateral coverage
- Compatibility with the CU's strategy

# 5c. Credit Committee: Staff

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Provide recommendations on:

- Structure of credit exposure, i.e. short-term or long-term
- Credit product: installment loan, overdraft
- Repayment plan: Regular, irregular, grace period
- Disbursement: single disbursement, tranches and conditions to be met before and/or after disbursement
- Monitoring requirements, in cases involving tranches and monitoring of investment plan
- Collateral structure
- Pricing (interest rates, disbursement and other fees) to appropriately reflect the level of risks related to the case.
- Other

## 5d. Credit Committee: Negative Decision

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**Objective:** Assess the information collected during member visit and decide if client is eligible for a loan.

Your decision is: No

NB: this decision should not be taken alone! 4-eyes principle!!

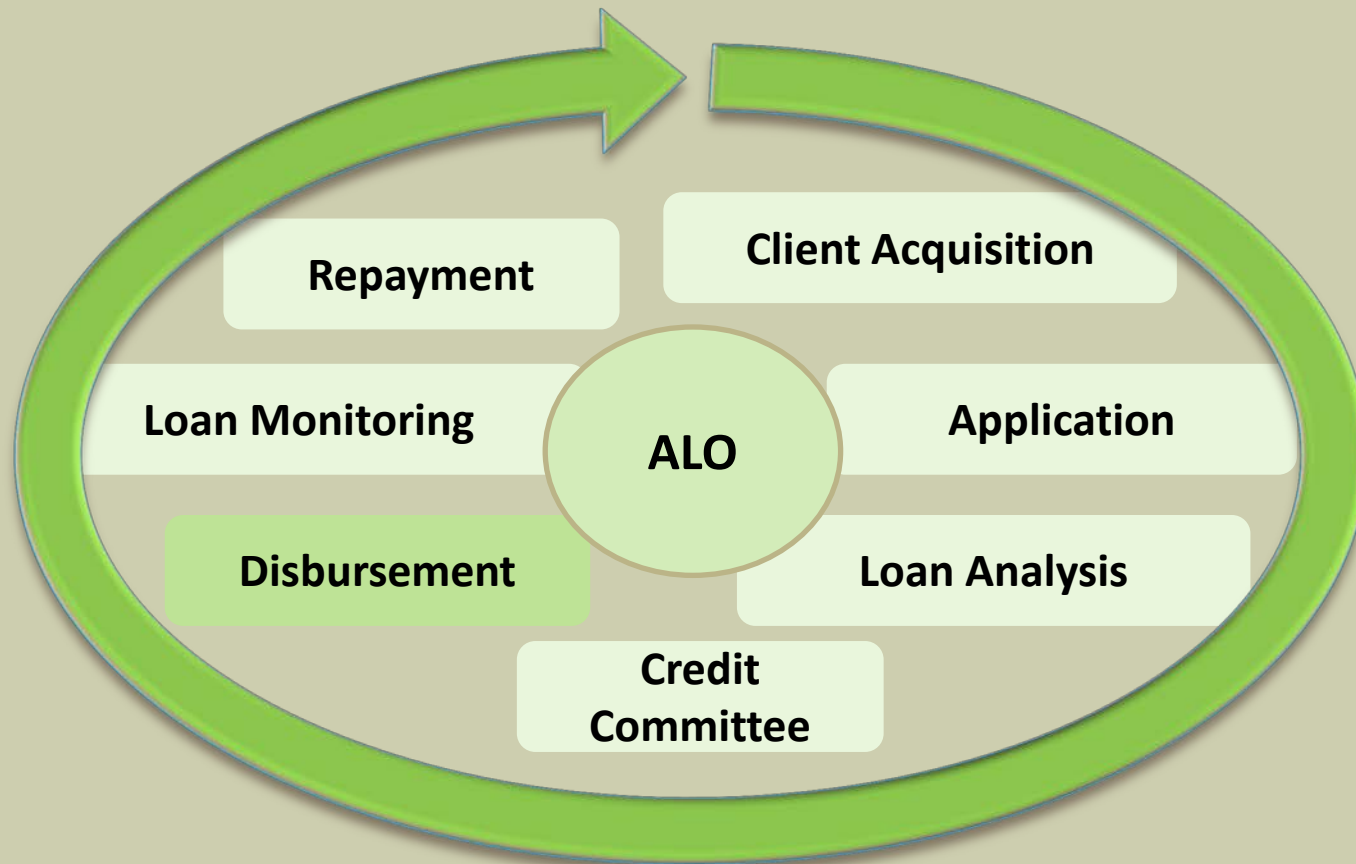
- Discuss this decision with branch management
- Record reasons for rejection on loan application form
- Branch management signs the document and enters the loan into the system as rejected
- Filing of member file
- Call member on the same day and explain rejection to him/her.

Output

Reject case in system

# 6. Disbursement

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# 6a. Disbursement: Checking documents

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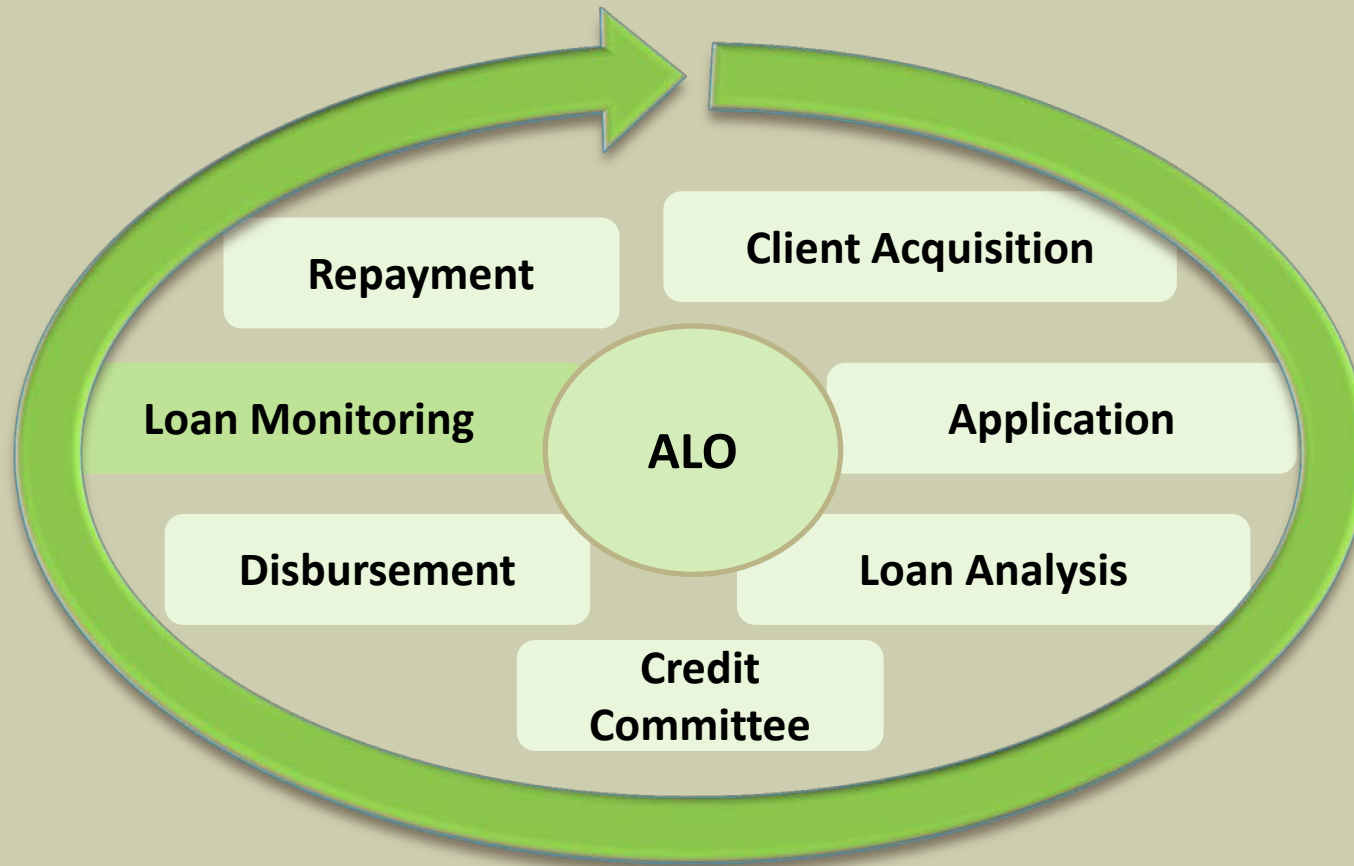
## Issues to be checked

- The business is duly registered
- The member is duly authorised to conduct the requested loan transaction with the bank on behalf of the enterprise
- Ownership documents for the proposed collateral (e.g. an ownership title in the property register or the cadastral office, purchase documents, etc.) are in accordance with legal requirements

You should ensure that all relevant legal issues are clarified before proceeding with the analysis. If any doubts remain and/or the legal issues have a significant impact on the assessment of the case (e.g. if there are irregularities relating to the licence the client needs in order to conduct his/her main business activity), the Credit Analyst asks the legal department to provide a comprehensive legal opinion.

# 7. Loan Monitoring

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# 7a. Loan Monitoring

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## **All activities post disbursement:**

- Print repayment list daily to see whose payments are due today, tomorrow, etc.
- Visit client every 6 months
- 3 days before repayment: remind client by phone

## **If client does not (fully) pay instalment:**

- Call on first day
- Visit client within three days (understand the problem)
- Invite him to the branch
- Discuss a strategy with branch management
- Prepare a monitoring plan
- Prepare report for Portfolio Management Committee
- Prepare the default notice

# 8. Repayment

ALO should contact all members that have just finished paying off their loan to see if another business loan is needed.



**For more resources please visit AgriFin's website**

**[www.AgriFin.org](http://www.AgriFin.org)**

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We welcome your feedback to help us further refine these training materials. Please contact us at [agrifin@worldbank.org](mailto:agrifin@worldbank.org).