

Training Manual: The Basics of Financing Agriculture

Module 6.1 | Roles and Responsibilities of ALOs

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	Agriculture Loan Officers (ALOs) require a basic understanding of the agriculture process to interact with their client and evaluate proposals effectively. An introduction to the agriculture sector will emphasize the basics in plant biology, climate interactions, soil management, as well as the leading practices in sowing, pre-harvest, harvest, and post-harvest processes.
SCOPE	By the end of this presentation, the session will provide: <ul style="list-style-type: none">• An understanding of climate interactions in production• An appreciation of soil properties and its management• The principle of crop rotation and why it is needed• Managing fertilizer optimally and safely• Crop practices to protect against pests, diseases, and weeds• Harvest and post-harvest processes in agricultural production
TARGET	Agriculture loan officers, trainers, agriculture experts with limited financial analysis training, and other professionals interested in agriculture financing
DURATION	1 hour



Content

1. Lending methodology & credit cycle
2. Role of a Loan Officer
3. Best practices in lending
4. Exercise

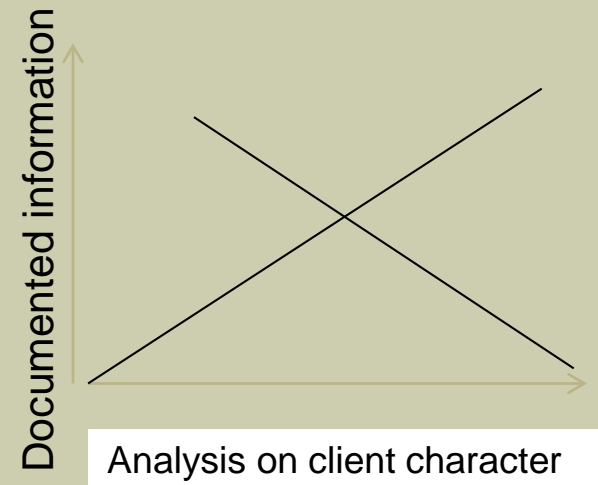
1. Credit Methodology

Objective

- Determine repayment capacity of the client
- Determine the willingness of the client to repay the loan
- Monitor the client until the end of the credit cycle

Principles

- No distinction between household and business activity
- Money is fungible
- Alternative guarantees are necessary since clients often do not dispose of fixed assets:
 - Personal guarantees (guarantors)
 - Movable assets
- Analysis of client morality is more important



1a. Credit Methodology – Credit Cycle





2. Roles of ALOs

What are the professional characteristics of an ALO?

- Integrity (as credit union employee)
- Sense for detail
- Investigative
- Member-service oriented
- Good sales person
- Polite, able to manage conflict
- Analytical
- Creative, solution-oriented



2a. Job description of an ALO: General

- Potentially act as **mentor for colleagues**
- **Hand over** the active portfolio in case of vacation/absence (explains issues, follows up with colleague after absence)
- Signal **conflict of interest**
- Conduct **market research** and proposes new lending products
- Protect the client from **over-indebtedness**
- **Inform clients** about other financial products (cross-selling)



2b. Job description of an ALO: Specific

Loan application:

- Advise and **inform clients** on loan products
- Conduct **effective screening** and selection of loan applications
- Signal a **conflict of interest**

Loan analysis:

- **Conduct loan assessments** by visiting client's residence and business, contacting suppliers/clients/etc. and analyzing in a professional way
- Competently **present results** of his/her analysis to the credit committee
- **Define repayment capacity**

Credit committee:

- **Provide all necessary information** to credit committee to take an informed decision
- **Follow up** on necessary clarifications requested by the credit committee



2b. Job description of an ALO: Specific (contd.)

Loan disbursement & monitoring:

- **Explaining contract terms**, payment plan, etc. to client
- **Monitoring of loan** (frequent visits, monitor account movements, etc.).
Inform management about potential problems
- **Cross-sell savings/transactional** products
(increase turnover through member's account to better manage credit risk)
- **Review and discover** if client has made additional loan requests



2b. Job description of an ALO: Specific (contd.)

Recovery generalities:

- Being fast **with follow up**. The majority of funds are recovered in the first 5 days.
- **Being firm**, but stay professional (i.e., polite, respectful)
- Maintain professional attitude and not **shouting** at the clients
- Going through the **terms of the contract** and remind the client of his obligations
- Being **creative** about solutions:
 - Did you inform the guarantor?
 - Are there other assets the member could sell?
 - Are there smaller installments you could agree on?

3. Making Loan Recovery

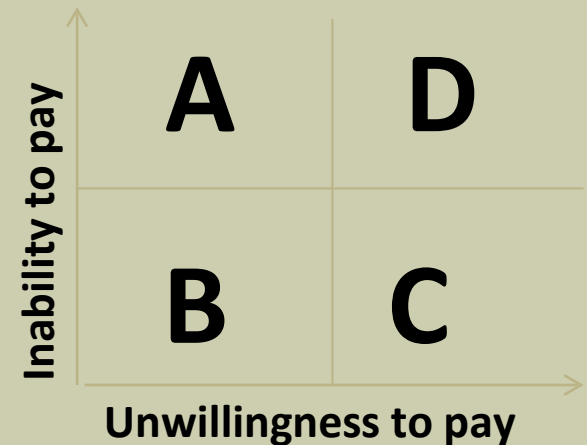
Recovery:

Day 1-2: Call member and point out the overdue payment and his obligations

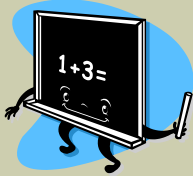
Day 5: Visit the member to find out more about the problem

Know what card to play:

- Be understanding in case of a real problem (e.g., theft, fire, etc.)
- Apply pressure when member is unwilling to pay
- Provide solutions when member is unable to pay
- Move quickly to legal procedures if member is unwilling to repay even though he is able



3a. Managing Over-Indebtedness



Why should an ALO avoid over-indebtedness of its members (i.e. should only disburse loans if the member is able to repay)?

- When an institution has a high level of over-indebtedness among clients, it will likely have an unhealthy portfolio.
- These are a few of the most common ways that over-indebted clients affect a bank:
 - Increase in client delinquency
 - Portfolio provisioning prevents institution from making other loans
 - Slow and costly legal proceedings for collections
 - Damage to the institution's image and portfolio

2d. Sources of information

Source	Quantitative information	Qualitative information
Neighbours		<p>Is this really the client's business?</p> <ul style="list-style-type: none"> - Does the shop open daily? - Is the business frequented by clients? - Does the member come in frequently? - What is the business's reputation in the community?
Suppliers	<ul style="list-style-type: none"> - Client invoices (outstanding) - Volume and frequency of client purchases 	<p>What is the client's business capacity?</p> <ul style="list-style-type: none"> - How frequently does the member buy at the supplier (cross check: client statement) - How reliable is the member's payment behaviour? - Are there many outstanding invoices? (cross check: client statement)
Clients		<p>How satisfied are clients with the member's business?</p> <ul style="list-style-type: none"> - What do clients appreciate about member's business? What not? - Does our member readily give credit?
Member	<ul style="list-style-type: none"> - Sales book - Client interview during business and household visit 	<p>How does the member want to run his/her project?</p> <p>How profitable will it be?</p> <ul style="list-style-type: none"> - What is the cash flow generated by the project? - What expenses will the member have to cover? - How much can he repay/month without getting overstretched?



2e. Interaction with others

Members:

- To receive loan analysis-relevant information
- To cross sell savings/transactional products

Guarantors :

- To guarantee repayment capacity
- To explain responsibility of guarantors

Neighbors/suppliers/clients:

- Confirm client's business location
- Receive more information on client's business operations/quality

Colleagues:

- Hand over portfolio during vacation/absence
- Provide/give advice on clients/business sector



3. Best practices in lending

Responsible lending:

- Ensure that you accurately determine the repayment capacity of the member
- Ensure that the member understands his obligations

Professional lending:

- Implement the 4-eyes principle in all processes
- Inform colleagues about conflicts of interest
- Ensure integrity/independence: e.g. do not accept “gifts” from a client you have to analyze
- Keep member information confidential
- Keep a list of all your members and their repayment days!
- Be transparent if you know the member!
- Treat every member in the same way



4. Exercise – Role Play

Write up a text to present yourself as a loan officer from your CamCCUL-affiliated credit union, providing some information on available products and what solutions you provide. (10 minutes of preparation)

Then, choose between one of these role plays:

Please work in pairs, where one of you is the loan officer and the other the member. The member starts complaining about the time it takes to complete the financial analysis and the many questions the LO is asking. The LO has to placate the angry member. (10 minutes of preparation)

Please work in pairs, where one of you is the loan officer and the other the member. The loan officer has to tell the client that his loan has been rejected and that the CU will not finance him. The member becomes furious. (10 minutes of preparation)

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.