Project Overview

The objective of the ABM project was to contribute to the provision of financial services to smallholder farmers and other actors along key agricultural value chains in Madagascar. This was primarily to be done through establishing new delivery channels, developing new products, and strengthening the capacity of staff working on agriculture finance. The project improved ABM’s capacity to serve agricultural clients by:

a) establishing three different types of delivery channels to expand outreach to new markets;

b) developing new agricultural loan products;

c) improving the systems and procedures related to agricultural lending and agricultural portfolio management and;

d) improving staff skills in relation to lending to agricultural clients. The results and lessons emerging from the project provide an opportunity to educate and inform other financial institutions with an interest in strengthening their agricultural finance outreach.

Results

Three types of delivery channels were developed to expand the bank’s outreach to smallholder farmers in remote areas. A key challenge in agricultural lending is reaching rural clients who are located far from town centers and existing branches. As traditional bank branches are costly to establish, and maintain, they require a large volume of clients if they are to operate in a cost effective manner. To overcome this challenge ABM developed a range of delivery channels including branches, maxi outlets, and mini outlets. Each service point varies in terms of services offered and costs of operation. Branches were established in two town centers that were located in agricultural rural areas. These full service branches offering a complete range of banking services act as “hubs” for smaller outlet types. Two maxi outlets were developed in smaller market towns which offered a large range of services including cash handling, client take-on and product sales; however, they are much smaller and much lower cost than full service branches and hence can effectively operate in areas with less customer traffic. Five mini outlets or sales points were established in small villages; these outlets operate only on market days and offer only basic account take-on services for new client acquisitions. The different types of outlets enabled a much greater reach to be achieved by ABM in a cost effective way. The three different delivery channels significantly enhanced ABM’s capacity to serve agricultural clients, many of whom did not have previous access to financial services. This is reflected in over 600% increase in the number of agricultural clients from 961 at the start of the project in 2010 to 7,194 clients in Q2 2014.

Three products were developed—warehouse loan, poultry loan, and equipment loan.

- **Warehouse Loan**—this product was designed to provide short term working capital loans to rice producers and collectors after harvest. The product is provided via warehouses owned and managed by ABM. It allows farmers to store their commodity at ABM’s warehouse and receive a loan against the market value of the stored commodity. Currently, the bank is seeking ways to address the fixed cost associated with maintaining warehouses during the off season periods in agriculture.

- **Poultry Loan**—the loan was designed to be provided in partnership with a chicken feed input supplier. A few loans were
provided and results indicate that there is a need to ensure the quality of inputs offered by the supplier. ABM is currently refining the product and negotiating with other input suppliers that will be able to provide higher quality inputs for its clients.

- **Equipment Loan**—the loan is made in partnership with a local equipment supplier to finance farm equipment. No loans have been disbursed yet because the clients found the equipment provided by the supplier costly and unsuitable to their needs compared to other choices available in the market. However, ABM is confident that the product has great potential for success and is currently seeking to partner with other suppliers who are more likely to meet client preferences both in terms of cost and quality.

**Agriculture lending staff trained on value chain lending and loan appraisal techniques.** ABM lending staff participated in a number of learning exchanges and workshops with other agricultural banks in Africa and Asia. Through these events they developed both an appreciation for the opportunities to expand agricultural lending through the utilization of value chain lending approaches, and knowledge of how to develop and utilize standardized loan appraisal tools for agricultural clients. As a direct result of their participation in these learning events ABM developed their value chain structured poultry loan product (see above for details) and developed a series of lending tools for client risk assessment.

**Lessons Learned**

- **Alternative low-cost delivery channels provide a great opportunity to acquire new clients in rural areas where full service branches are cost-prohibitive.** Through the development of a range of outlet types, ABM has identified a means of reaching rural clients in a cost-effective way. Placing mini outlets in smaller villages, which only open on market days, and which serve as sales points for loan origination, and application, enables the bank to acquire hard-to-reach clients and link them with branches where they can access a range of banking services when required. In addition, the maxi-outlet offers the majority of banking services but at a significantly lower cost than a full-service branch. This enables lending and cash handling to be undertaken at towns that traditionally would have insufficient client footfall to justify the costs of a branch. This range of outlets concept offers the potential for replication in similar regions and countries, where rural populations are spread too thin to justify the costs of full service branches.

- **Improving outreach to rural areas requires staff who are trained to serve both agriculture and non-agriculture clients.** ABM commenced their agricultural program by training loan officers to be fully focused on agricultural clients. However through the project period ABM learned that having stand-alone agricultural loan officers was not financially viable, and that in order to reduce transaction costs, it was necessary to train its loan officers to handle both farm and non-farm loans. This enables ABM loan officers to serve more clients and have a much larger portfolio of clients. In addition, loan officers are now able to generate income throughout the year via their non-agricultural loans, where previously off-season periods in agriculture led to low income generation on pure agricultural portfolios.

- **Value chain lending is more likely to be successful when banks partner with multiple suppliers.** ABM developed loan products to be delivered via partnerships with local equipment
and input suppliers. However, these products failed to sell widely, primarily because the bank relied on single suppliers who did not meet client preferences. ABM learned that selecting more than one partner that can deliver good quality inputs is critical in making these value chain products more appealing to its customers. In this respect, assessing the quality of the input supplier and their services, and ensuring that these providers are attractive to agricultural clients is essential to ensure client uptake.

Life events and animal disease are major risk in the agriculture portfolio. In order to identify risk factors leading to default and take necessary risk mitigation/management actions, ABM undertook research to better understand the causes underlying agricultural loan defaults. The assessment revealed the major causes of loan default in the agriculture portfolio include: (i) death, illness and imprisonment (37%), (ii) robbery, fraud, non-recovery (23.7%), and (iii) animal death or diseases (20%). Based on this analysis, ABM is making preparations to introduce life and livestock insurance products that will insure/protect clients and the agriculture portfolio against such risks.

**With the right strategic approach, a bank that has never lent to agricultural clients can do so successfully.** Over a four year period, ABM has increased the number of its agricultural clients by 649%. Between 2010 and 2014, the bank grew its agricultural borrowers from 961 to 7,194 and its total agriculture lending portfolio from US$1,200,000 to US$5,465,323. ABM’s success was possible because of its focus on developing a cost-effective network to reach agricultural clients; developing loan products that were tailored to the agricultural sector; and training its staff to lend effectively to the Madagascar agricultural sector.

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