

Training Manual: The Basics of Financing Agriculture

Module 5.3 | Interviewing SMEs

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	Interviewing SMEs requires thorough preparation and background analysis of the client as well as the potential of the proposed investment. Agricultural Loan Officers require guidance on preparing and conducting effective interviews to be able to gather sufficient information about the client so that they can make informed investment decisions.
SCOPE	<p>By the end of the session, the trainee will have an understanding of the following key aspects of interviewing SMEs:</p> <ul style="list-style-type: none">• Goals and the basic structure of an SME interview• Guidance on preparing for SME interviews• Steps on leading an informative discussion with the client to gather all necessary data for analysis• Finally, the session provides a summary of the typical SME clients seeking agriculture financing and their usual requirements
TARGET	Agriculture loan officers, trainers, agriculture experts with limited financial analysis training, and other professionals interested in agriculture financing
DURATION	1 hour

Content

1. Basic structure of the interview
2. Preparation: before visiting the client
3. During the visit: Information needed
4. Typical clients

1. Basic structure of the interview

Visiting and interviewing the client is the most important step of the entire credit procedure and is also the basic foundation for credit approval.

Goals of the interview:

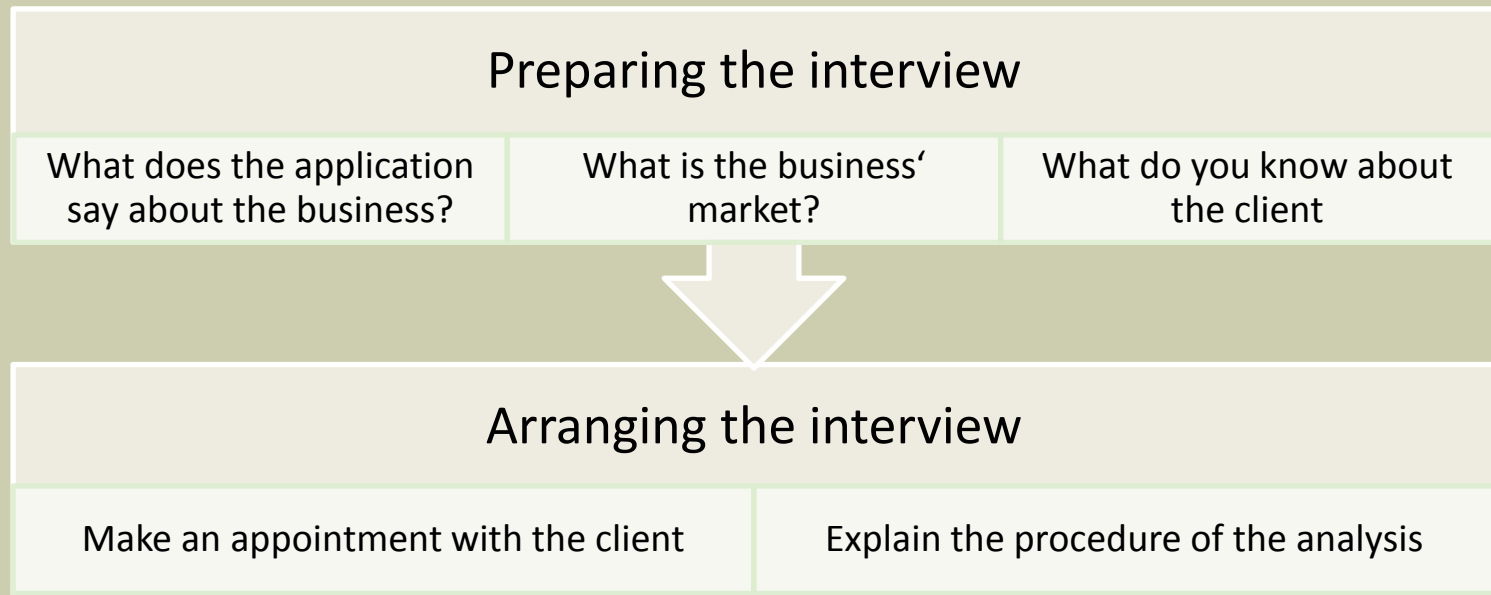
- Gather all credit related data and information, including financial data, information about the client and the client's family, business history, investment plan, etc.
- Analyze the client's repayment ability and repayment willingness
- Build a relationship with the client, improve the Credit Union's professionalism and responsibility in serving SMEs

2. Preparation: before visiting the client

Broadly, the Interview consists of two parts:

- Before visiting the client
- Visiting the client to collect up-to-date information

The points to be covered are summarized below:



2a. Preparation (I)

Review the application regarding following aspects:

- Business activity
- Organizational structure
- Balance sheet related items: total assets, total liabilities
- Profit and loss statement related items: monthly sales, profit margin
- Loan amount, term, purpose
- Guarantor (if required)

2a. Preparation (II)

After the review the Loan Officer should:

- Be aware of the characteristics of the client's business activity and its specific risks, e.g. sector risk
- Know how big the business is
 - Total assets
 - Turnover
 - Number of employees
- See whether the business information is consistent
 - For example, the client has six employees but has monthly sales of only FCFA 50,000
- Come up with a first judgment whether loan amount, term and purpose are suitable to the business
- Know who the guarantor is (if required)
- Have identified some basic risks to be assessed during the Interview

2a. Preparation (III)

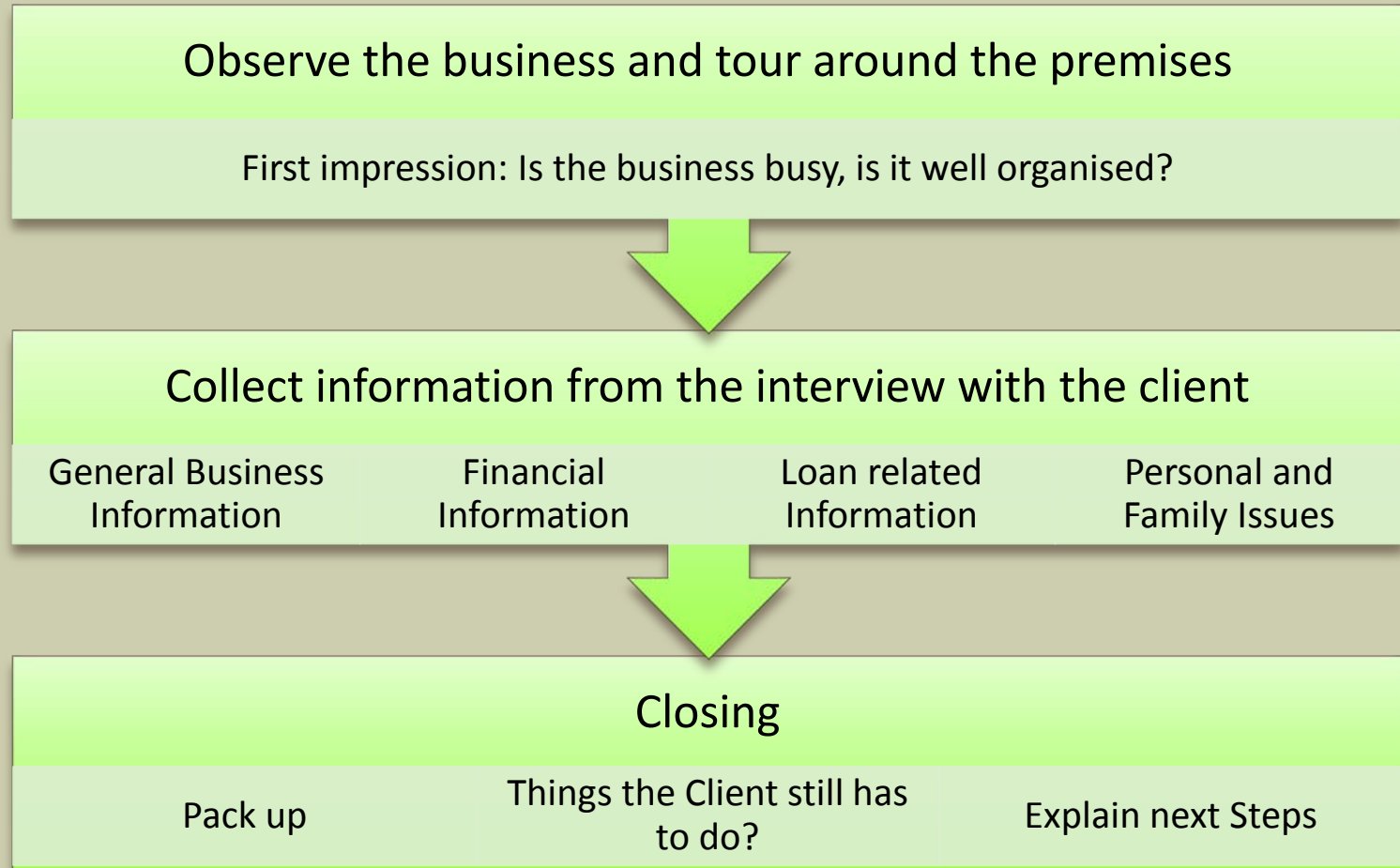
- Communicate with the Loan Officer (or MSO) who filled the application
 - Client's character: possible problems that might occur during the analysis
- Compare with similar clients
 - Understand the typical characteristics of this industry or the business model
 - Purchase channels, target group, payment terms, etc.
 - How do operations in this business usually look?
 - For example at a certain wholesale market all stands open at 4 am
 - What are benchmarks for the profit margin, rents, salaries, etc.
- Check the credit report
- If the client has a bad credit history, the Loan Officer needs to pay more attention and clarify the situation during the interview.

2b. Arrange the interview

Make an appointment with the client via telephone

- Identify yourself
- Confirm the application for a loan
- Explain the procedures to the client
- Agree on an exact meeting time with the client and make sure that the client has enough time
- Confirm the route and means of transportation to the client's business premises
- If there are other key persons (e.g. co-owner, manager), make sure that they will be there too

3. During the visit: Information needed



3a. Observation

Before starting the analysis you should:

- Observe the shop's location and surroundings before entering
- Observe the overall situation of the shop after entering: goods, decoration, etc. Is the machine running? Business license?...
- If possible, pay attention to how our client is dealing with his/her employees and his/her client

3b. Warm up Phase

Before starting the analysis you should prepare the client:

- When walking into the business premises greet the client in a friendly way
- Create an appropriate environment for the analysis! Is the place suitable for a confidential talk? Who are the people standing around?
- Use the client's "language" avoid anything which could make him/her nervous and help to build a friendly and relaxed atmosphere
- "Small talk" helps to learn more about the client's personality, his/her attitude towards the CU and the loan (indifferent? Don't want to inform his/her family? Why?...)
- Does our client know about his/her business? If we have to ask somebody else, who would be familiar with this business?

3c. Explanation

When clients understand the purpose of the interview they will become more co-operative. The ALO should reconfirm that the client was informed about the following aspects:

- The process of getting a loan: The interview is an essential part of the process
- What kind of information we need to know
- How long it will probably take

How to convince uncooperative clients? Some examples

- It may seem a little bit complicated, but this is an investment for a long-term co-operation between the bank and the client
- The more the Loan Officer knows, the more helpful it will be for disbursing the loan
- Information will be kept confidential---let the client choose the location and the participants

3d. Tour around Business Premises

Tour around the business with the client

- To obtain a general overview
 - Size of the business
 - Number of employees
- To get a first impression
 - Is the business well organized?
 - Is the business busy?
 - How is the interaction between the client and the employees and family members?
- To establish a friendly atmosphere
 - Use the chance to pay some compliments to the client, e.g.
 - Nice shop
 - Well organized
 - Big accomplishment at such a young age

3e. Information to be Collected in an Interview

General business information:

Organisational structure

Business model

Financial information:

Balance sheet

Profit & loss

Loan related information:

Loan purpose

Guarantor

Personal and family issues

3f. Multi-tasking during the visit

During the interview, the Loan Officer has to do a lot of different tasks **at the same time**:

- Ask questions
- Listen and understand the answers of the client
- Take notes
- Analyze and crosscheck financial data

The ability to perform on-site analyses and crosschecks improves with experience. Verification of information should be done at the client's premises and not doing resume making.

3g. During the visit: Organizational structure (I)

Legal form of the business

- Is the business owner also the license holder?
- Partnership: how many partners, how many shares each?
- Company: legal representative, other shareholders

Management structure:

- Is the business managed by family members?
- Who is responsible for which procedures?
- Any hired manager, special technicians, and part-time or full-time accountant?

3g. During the visit: Organizational structure (II)

Personal and business history

- What did the client do before the current business?
- When and why did he/she change to the current business?
- How much did the client invest?
- How did the business develop until now?
- Any changes in ownership structure (e.g. other partners)? If yes, why and how did it change?

3h. Review the Business Model

Business specifics:

- Production, trade or service?
- Wholesale or retail?
- Who are the main customers?
- From where are the goods or raw materials purchased?
- What are the payment terms for both purchase and sales?
- Are deals settled in cash or via bank transfers?
- Is there seasonality?
- Does the client have other business lines?
- Are any changes planned in the future?

3h. Review the Loan Purpose

Only if we know the detailed plan of the investment, we can judge whether the loan purpose is suitable to the business:

- What amount is required for the total investment?
- If the loan amount cannot cover the whole investment from where will the other funds come?
- What exactly will be done with the money? For example,
 - Renovation of the business premises: how much for
 - Laying the floor
 - Painting the walls
 - Install air conditions, etc.
 - Purchasing goods
 - What exactly will be purchased?
 - How much for each kind of goods, etc.?
 - From whom and when will the client make the purchase?

How does the investment fit into the future plan of the business?

3h. Review the Balance Sheet (I)

We need to get information on all the assets and liabilities:

- ALO could start **collecting balance sheet** related information by counting the visible assets like
 - Business premises (if they are owned by the client)
 - Equipment and machinery
 - Inventories
 - Cash and bank deposits, normally checked at the end of the interview
- **Collect and verify** information on invisible items
 - Given prepayment: any receipts or bank slip?
 - Received prepayment: any receipts?
 - Account receivables with detailed payment terms: any records?
 - Account payables with detailed payment terms: any receipts?
 - Debts: with private person or banks

3h. Review the Balance Sheet (II) - Inventory

When counting inventory, pay attention to the following points:

- From “total” to “part”: First, get an overall picture of client’s inventory (storage condition, inventory types, etc.)
- From “big” to “small”: According to the inventory’s value, the Loan Officer may start from the most valuable good. Do not waste too much time on small items
- The Loan Officer may ask client or employee about methods to count inventory. How does the client count his/her inventory?

3h. Review the Profit & Loss Statement

Sales

- Daily, weekly, monthly, in different seasons

Gross profit margin

- Different products (services) can have different margins
- Margin of the best selling product (service)

Cost

- Variable cost: Ask the client to describe how the unit price is calculated
- Fixed cost: ask the client what costs exist for running the business
- “Anything else?” Don’t forget to ask at the end if all costs are already mentioned. Some business can have very special cost that you are not aware of

This part is very sensitive. Nobody likes to reveal how much profit the business really yields. You need to guide the client and crosscheck all the time whether what the client tells makes sense.

3i. Guarantor and Collateral

Basic information on the guarantor

- Name
- Business activity or occupation
- If the guarantor is an employee, details on employer
- Contact information of the guarantor

Client's relationship with the guarantor

- Friends
- Relatives
- Business partners

Has the guarantor already been contacted?

3j. Personal and Family Situation

Family situation

- Family members
- Dependents
- Living expense and extra family expense
- Income of other family member(s)

Personal hobbies: this helps to crosscheck the family expense and to see if there is any risk in the client's private life.

Also talk to other family members to see their reaction to taking the loan

3i. What the Analysis Can Tell You

Business' organizational structure, history and model

- What is the client's experience in the business?
- How does the client handle internal and external risks?
- What are the vulnerable points and dependencies in the business?

Balance sheet and profit and loss statement

- Does client's view on his business fit the financial data?
- How are the business' financial ratios compared to the industry?

Loan purpose and guarantor

- How is the client's current business affected by the investment project?
- How realizable are the guarantors?

In summary, the single parts of the interview can yield much information on the client, the business and risks involved:

3j. Any Remaining Questions?

- Any information that is still unclear or not consistent?
- Compare with prepared questions, see if there is any information missing
- Check the client's cash

At the beginning of an interview clients very often are reluctant in answering sensitive questions, so it is sometimes useful to ask questions at the end of the analysis.

3k. Closing the Visit

Review and pack up all documents

- Don't leave anything behind

List things that the client still has to do, if any

- e.g. Providing some other documents

Explain the next steps

- The Loan Officer will prepare for a presentation to the Credit Committee
- The Credit Committee will make a decision (without telling the client the names of the Credit Committee members)
- The client should be informed about the decision in around x days

At the beginning of an interview clients very often are reluctant in answering sensitive questions, so it is sometimes useful to ask questions at the end of the analysis.

3I. What should you do if...

The client changed his/her behavior after you asked him/her a question?

- Change the way of asking the question? Is the question too sensitive?
- Change the topic?

Other people join in the analysis?

- What is the relationship between them and your client? (family, business partner, employee...)
- Let them join the conversation?
- Stop the analysis or continue?

The client suddenly wants to stop the conversation?

- Too busy? Other people present? Plan another time to meet with client?

Client wants to give a present or invite Loan Officer to a meal?

3m. Important notes

Be structured at the interview

- Construct the interview in blocks, group your questions
- Always remind yourself why you are asking a certain question, which block it covers

Build in crosschecking questions during each block of the interview

- Crosschecking should be done on site, back in the branch it will be too late

Some practical advice:

Develop a template suitable for yourself to take notes during the interview. Such a template can help you keep the structure. Even if you have to jump between blocks, it would be easier for you not to miss any information.

3n. Sample template

<p>Client background: previous experience, when was the shop opened, reasons for opening the shop, initial investment, business model.....</p>	<p>Questions related to balance sheet: Cash, Inventory, Fixed Assets, Other Liabilities, Account Receivable, Account Payable (in detail)</p>
<p>P&L related questions Good Average Bad</p> <p>Purchases:</p> <p>Sales:</p> <p>Profit/Cost structure:</p>	
<p>Operating expenses: rent, salary, electricity, transportation, tax ...</p>	<p>Other: Family situation, other investment, future plan ...</p>

4. Typical clients

Co-operative client

- Keep friendly attitude towards client, do not let co-operative clients turn unco-operative
- Even if the client needs the credit urgently and/or values the relationship with the CU, the Loan Officer still needs to do cross-checks and should not blindly believe the client.
- Be cautious if a client is too co-operative (if a new client prepared useful documents like cash book, inventory list, water and electricity bill in advance and the numbers in the fit too well)

Talkative client

- Grasp the opportunity to kindly interrupt client and ask your question more clearly
- Praise the client appropriately, have some “small talk” and help to improve the relationship with client

4. Typical clients (contd.)

Exaggerating client

- Clients often exaggerate their assets and turnover in the belief that this would increase their chances to get a loan
 - Explain the client our procedure, assure the client that an accurate picture of his/her business is much more important than the size of the business.

Non-cooperative client

- Find out why the client is unco-operative and handle the situation accordingly:
 - **The client too busy or has something urgent to do:** find another place or time to do the analysis
 - **“It is too troublesome to get a credit”:** ALO is helping the client to get a credit and needs detailed information; This is the first time co-operating with our bank, in the future things will be much easier.

4. Typical clients (contd.)

Non-cooperative client (contd.)

- **“I can’t answer your question, this is confidential”** : Build client’s trust toward the CU and you as a Loan Officer, re-emphasize the CU’s principle of confidentiality. The Loan Officer represents the CU, therefore in order to get the client’s trust, the Loan Officer needs to improve his/her communication skills and professionalism
- The Loan Officer should learn to understand the client and find good communication solutions.
- However, don’t **make your client do something he/she doesn’t want to and don’t beg the client either.**
- The client should decide what kind of credit is more suitable. Even if he/she does not become our client this time, if he/she is satisfied with our service, then he/she might be our client in the future or may recommend our institution to others.

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.