



HNB



Using Scoring Systems to Assess Agricultural Clients

Chandula Abeywickrema

**Project Director of Hatton National Bank &
Chairman of Banking With the Poor Network**

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Summary

- ❧ Country overview
- ❧ Business overview
- ❧ HNB agri lending portfolio
- ❧ Client selection criteria
- ❧ Client assessment
- ❧ Key risk factors in client assessment
- ❧ Risk mitigation
- ❧ Analytical tools used
- ❧ Three most critical success factors
- ❧ New initiatives

Country Overview

Year 2012

- ❧ Mid year Population – 20.328 Million
- ❧ Per capita GDP at market prices – US\$ 2,923
- ❧ GDP growth rate – 6.4%
- ❧ Sectorial composition
 - ❧ Agriculture 11.1%
 - ❧ Industry 30.4%
 - ❧ Services 58.5%
- ❧ Life expectancy – 74 (male - 70.3 & female - 77.9)
- ❧ Literacy rate – 92.2%
- ❧ Ranked No. 01 in the travel destinations for 2013 (Lonely Planet)



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Overview on Business Line



- ✧ In agri business since incorporation of HNB in 1973 in collaboration with a consortium of private sector companies under the name of "Agrohope"
- ✧ In 1977 Hatton National Bank PLC commenced participating in the Comprehensive Rural Credit Scheme (CRCS) of the Central Bank with a package of financial assistance to the agricultural sector
- ✧ HNB has been in the forefront of providing financial services to rural communities covering a wide and extensive area focusing on agriculture, agri-processing, animal husbandry, fisheries, trading & other self-employment projects
- ✧ To handle Agri Credit schemes, the Bank has recruited staff who are qualified in the field of agriculture and specialized in agri-lending and rural development sector activities
- ✧ Successful partnering with large corporates in agri sector for buyback arrangements, technical know-how (CIC, Hayleys, Nestle, Fonterra)
- ✧ Active participation in credit lines and donor financing to pass on the benefit on the rate of interest to customers.
- ✧ Offers a comprehensive package of services, including financial assistance, technical know-how and marketing arrangements to the rural community thereby significantly contributing towards the development of the rural agricultural economy



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HNB Micro Agri Lending Snapshot as at Mar 2013



Description	No of Loan	Portfolio (US\$.Mn)
Agri & crop production	15,012	15.970
Livestock	3,955	4.286
Farm equipment	1,711	12.646
Marketing & processing	1,896	16.349
Forward contracts	129	5.860
Fixed investments	5,425	30.573
Total	28,128	85.684

Client Selection Criteria



Mandatory

- ❧ Age
- ❧ Knowledge/experience
- ❧ Genuine interest
- ❧ Viable project
- ❧ Equity contribution minimum of 25% of project cost(cash/kind)
- ❧ Sufficient infrastructure
- ❧ CRIB clearance
- ❧ Crop marketability
- ❧ References (for new client)
- ❧ Guarantors/movable/immovable security

Non-Mandatory

- ❧ Other sources of income
- ❧ Dependents/family support
- ❧ Marketing arrangement
- ❧ Insurance
- ❧ Credit history
- ❧ Banking relationship
- ❧ Obtaining of advisory services
- ❧ Disease control mechanism/knowledge



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Client Assessment



Assessed based on the 5 Cs

- ☞ Willingness to pay – genuine intention, references, credit history
- ☞ Ability to pay – viability of project, other sources of income, agri experience/education
- ☞ Equity contribution – seed capital, own/lease hold land, own labour, family support
- ☞ Security offered – personal guarantors, peer pressure, previous banking relationship, movable/immovable security
- ☞ Bank terms and conditions – repayment conditions, rate of interest, compulsory savings

Key Risk Factors in Client Assessment

Business risk

- ☞ Production risk – Natural calamities, pest/disease outbreaks, technological changes
- ☞ Market risk – input/output price volatility, exchange rate, interest rate, counter party default, substitutes, post harvest techniques, lack of diversification
- ☞ Environment risk – changes in govt. policies, conflict, trade restrictions
- ☞ Personal risk – death, illness, disability

Behavioral risk

- ☞ Unavailability or lack of formal source of information
- ☞ Farmers future actions cannot be accurately predicted
- ☞ Regular monitoring of number of farmers is costly
- ☞ Traditional collateral in offer
- ☞ Legal procedures are cumbersome and costly

Risk Mitigation

- ❧ Corporate partnerships
- ❧ Buy back arrangements
- ❧ Forward sales
- ❧ Technology transfer
- ❧ Customer awareness programs
- ❧ Close coordination with clients by the field officer
- ❧ Close monitoring of the growth and set-backs and adherence to quick remedial actions
- ❧ Well organized / follow-up mechanism
- ❧ Diversity in agri sector financing (tea, rubber, coconut, spices, farming, cultivation, poultry, dairy, fisheries)
- ❧ Managing disaster situations, arrange possible relief and re-scheduling of facilities when necessary
- ❧ Personal guarantees/movable/immovable security
- ❧ Insurance schemes

Analytical Tools Used

☞ At the Field

- ☞ Field inspection
- ☞ References
- ☞ Informal chats

☞ At work

- ☞ Utilize specialized agriculture knowledge for the analyzing process
- ☞ Cost benefit analysis of projects (cashflow)
- ☞ Price and cost analysis to determine the rate of interest



Analytical Tools Used

Borrower Assessment

Proposal Type	View Case <input type="button" value="v"/>
Borrower Name	ARIYARATHNE H G List
Annual Turnover of Borrower (Actuals in LKR)	<input type="text" value="0"/>
Exposure to borrower (Existing + Proposed) (Actuals in LKR)	<input type="text" value="50,000"/>
Number of employees with the Borrower	<input type="text"/>
Borrower Segment	Development Banking <input type="button" value="v"/>
Facility Type	Cultivation loans <input type="button" value="v"/>
Assessment Type	DF - Cultivation loans
Internal Rating Model to be Used	DF-Cultivation Loan(No Rating)
Last Audited / Available Financial Year	<input type="text" value="2012"/> Help
Type of Banking	--- Select --- <input type="button" value="v"/>
<input type="button" value="Proceed"/>	



Brief Description of the Borrower (including background, products and services)

ARIYARATHNE H G

Brief Description of the Borrower (including background, products and services)

Mr. Hanguranketha Gedara Ariyaratne is aged 51 years, married having 4 dependants & the permanent residence of R397, Masaranuwara, Mandaram-Nuwara. Ariyaratne is an well reputed businessman in the cultivation field with in the region. for the fast 35 years the applicant mainly engaged in cultivation activities.

Mr. H G Ariyaratne is the person who develops a new cultivation team for the branch from Mandaram-Nuwara. Before joining us Mr. Ariyaratne mainly deal with Peoples Bank ? Hanguranketha. In one of our awareness program held @ Mandaram-Nuwara we were able to canvass Mr. Ariyaratne and his team to bank with us.

Assets

Residential Land & building	0.75Mn
Agricultural Land	0.50Mn
Agricultural Equipment	0.10Mn
Total Assets	1.35Mn

Liabilities @ other institutions.

Lease facility @ finance company o/s 0.67Mn

Note: Press Ctrl+G for tab spaces (in the comment box)

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Appraisal Note

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Cash Flow Statement

ARIYARATHNE H G

Financial Year							
Flow Description	Jan	Feb	Mar	Apr	May	Jun	Jul
C/F		0	0	0	0	0	
Inflow (Sources of Cash)							
Sales							
Overdrafts (Unutilized amount)							
Loans (Amount to be disbursed)							
Equity (new equity to be brought in)							
Others							
Sub Total	0	0	0	0	0	0	
Outflow (Uses of Cash)							
Purchases							
Administration expenses							
Selling and distribution expenses							
Finance expenses - Existing							
Proposed							
Capital Expenditure							
Others							
Sub Total	0	0	0	0	0	0	
Net in / (out) Flow	0	0	0	0	0	0	
B/F	0	0	0	0	0	0	



Projected Profitability

ARIYARATHNE H G

(LKR in millions)

Anticipated Net Income from the Project

Estimated Yield (Kg.)	3,500
Price Per Unit	115
Total Income	402,500
Cost of Cultivation	206,500
Reserved for Consumption (Kg.)	25
Total Consumption	2,875
Repayment of Other Loans	78,000
Other Expenditure	5,000
Net Income	110,125

Comments

Note: Press Ctrl+G for tab spaces (in the comment box)

No. of Characters (in the comment box) :

Spell Check



Facilities

ARIYARATHNE H G

List Of Facilities	Select	Facilities Selected For This Case
BRIDGING LOAN CHEQUE DISCOUNTING FACILITY CHEQUE PURCHASING FACILITY COLLECTION - EXPORT BILLS COMMERCIAL PAPER CONSUMER LOANS CREDIT CARD DEVELOPMENT LOANS	<input type="button" value=" >"/> <input type="button" value=" Edit"/> <input type="button" value=" <"/>	DEVELOPMENT LOANS

Note : Please Add Sub-Limits On Terms and conditions - Facilitywise



Proposed Facilities

ARIYARATHNE H G

(LKR in r

Proposed Facilities

Facility	Currency*	Existing Limit	Existing Interest Rate / Commission	Outstanding Amount	Proposed Limit / Enhancement	Total Lim
DEVELOPMENT LOANS	LKR <input type="button" value="v"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	50,000	<input type="text"/>
Total		0		0	50,000	<input type="text"/>

Request*

50000

Observations

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Security Details

ARIYARATHNE H G

Financial/Non-Financial Security

(LKR in million)

Guarantees

Security Type	Facilities Guaranteed (Press Ctrl and click Facility name to Select multiple facilities)	Currency	Amount*	Name of Guarantor	Networth	Valid till*	Rating of Guarantor	Facilit Exposure %
DEMAND PROMISSORY NOTE	-- Select-- DEVELOPMENT LOANS	LKR <input type="button" value="v"/>	<input type="text"/>	<input type="text"/> List	<input type="text"/>	<input type="text"/>	--Select Grade-- <input type="button" value="v"/>	Detail
PERSONAL GUARANTEE	-- Select-- DEVELOPMENT LOANS	LKR <input type="button" value="v"/>	50,000	A G W M RANBANDA List	<input type="text"/>	31-07-2013	--Select Grade-- <input type="button" value="v"/>	Detail
PERSONAL GUARANTEE	-- Select-- DEVELOPMENT LOANS	LKR <input type="button" value="v"/>	50,000	A R M G N BANDA List	<input type="text"/>	31-07-2013	--Select Grade-- <input type="button" value="v"/>	Detail

Comments on Securities



Purpose

ARIYARATHNE H G

Details of the current proposal, transaction structure, benefits of new project (if it is a project proposal), credit enhancements. Details of project being implemented (if any), the status of implementation, cost incurred, method of financing

Mr.Ariyaratne is a well reputed cultivator in Mandarm-Nuwara region, in addition the applicant mainly deals with Peoples Bank. further one of our awareness program Mr.Ariyaratne approach to deal with us also he develop a cultivation team as well.

Now Mr.Ariyaratne approach to us consider a cultivation loan of Rs.50,000- for purpose of working capital requirements of next cultivation season.

In this 'Maha' cultivation season Mr.Ariyaratne approach to cultivate Beans, Tomatoes & Potatoes. In addition the applicant already prepar the land & other Necessary requirements for the next cultivation season.

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Cost and Means of Finance

ARIYARATHNE H G

Purpose	Details	Existing		Propose		Total
		Bank	Equity	Bank	Equity	
Land Preparation				2,000	10,000	12,000
Planting Materials				28,000	148,000	176,000
Planting / Broadcasting				1,000	5,000	6,000
Transplanting						
Harvesting / Threshing				1,000	5,000	6,000
Fertiliser				10,000	54,000	64,000
Agro-chemicals				3,000	16,400	19,400
Crop Insurance						
Documentation / Inspection Charges					585	585
Others				5,000	15,000	20,000
Total				50,000	253,985	303,985

Debt Equity Ratio

Proposed

16.45 to 83.55

Overall

0 to 0

Enter Comments in Brief

In this cultivation project we are only financing 16.5%



Project Risk Assessment

ARIYARATHNE H G

Enter Comments in brief

Management Risk

-During the past 10 years, the Mr. Ariyarthne has been able to gain sufficient experience and knowledge to manage the cultivation business well. Further, his sons are assisting him to run the business.

Market Risk

- During the past they have been able to build a very good selling surrounding with in the region hereby they distribute the vegetables to buyers in Mandaram-

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Spell Check

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Business Inspection Report

ARIYARATHNE H G	
No. of Reports*	<input type="text" value="1"/>
Report No.*	--Select--
Date Of Inspection	<input type="text"/>
Inspecting Officer 1	<input type="text"/>
Inspecting Officer 2	<input type="text"/>
Location and Accessibility of Project	<input type="text"/> 0 of 500
Description of Project /Product/ Service	<input type="text"/> 0 of 500
Infrastructure Facilities available	<input type="text"/> 0 of 500
	<input type="text"/>



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AGRIFIN

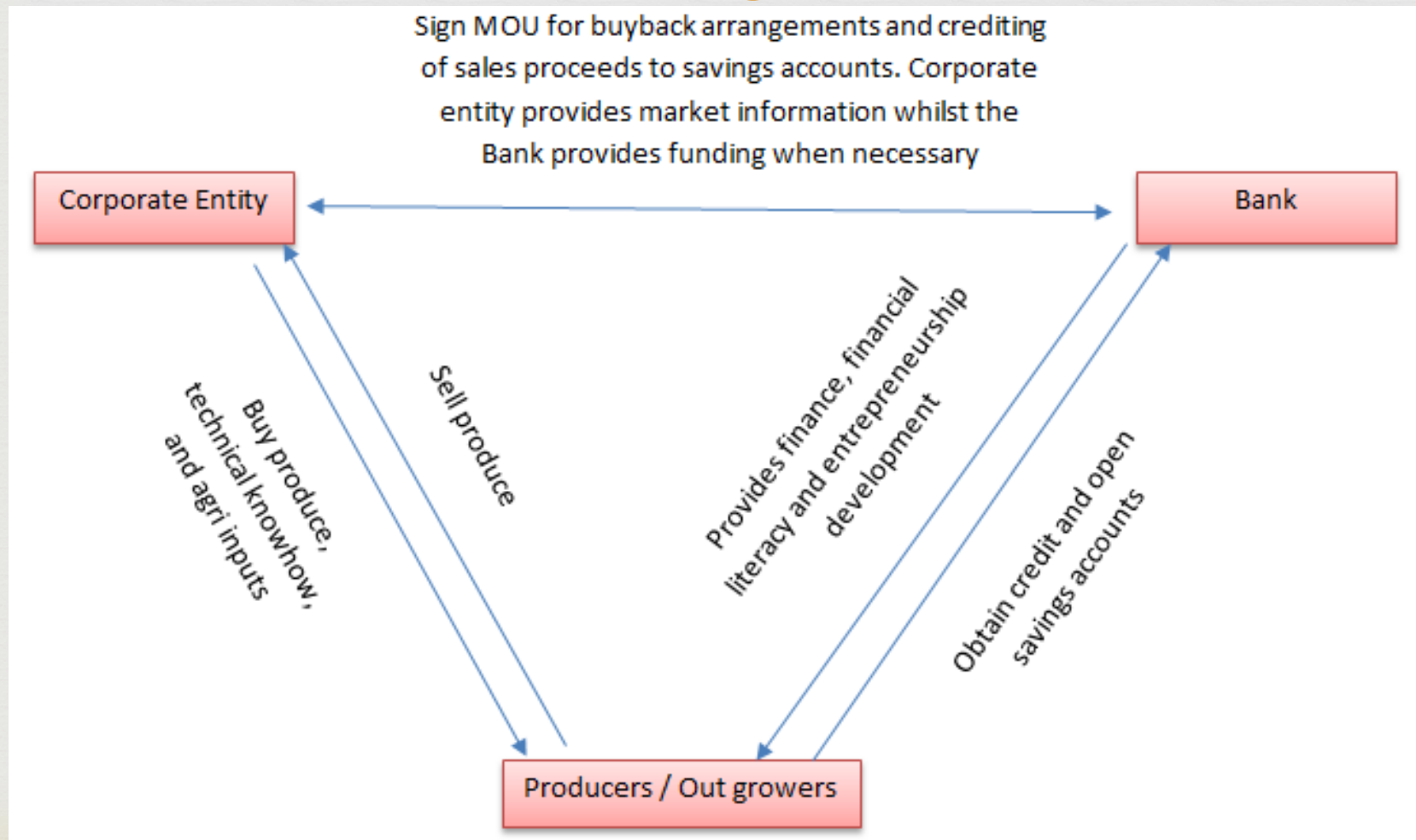
Agriculture Finance Support Facility

Condition of Building, Machinery and Equipment	<input type="text"/> 0 of 500
Existing income sources and Book-keeping	<input type="text"/> 0 of 500
Stocks and Debtors position	<input type="text"/> 0 of 500
Environmental Impact and Approvals	<input type="text"/> 0 of 500
Special Observations / Other details	<input type="text"/> 0 of 500
	<input type="text"/> 0 of 500
Special Observations / Other details	<input type="text"/> 0 of 500
Contact Details	<input type="text"/> 0 of 200

Save Cancel Delete Report

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Corporate Partnership Process



Three Most Critical Success Factors



❧ Commitment and conviction of HNB

- ❧ 120 year history
- ❧ 40 years of commercially viable agri finance
- ❧ Barefoot banker / Gami pubuduwa (village awakening)
- ❧ Trusted partner in progress

❧ Expertise of staff

- ❧ Experienced / Agri qualified field staff
- ❧ Commitment
- ❧ Continuous and strong linkage

❧ Corporate partnerships & value chain approach

- ❧ MOUs with Agri producing / promoting organizations
- ❧ Transfer of knowledge and technical expertise
- ❧ Financial assistance and literacy



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New Initiatives



- ❧ Use of the recently developed agri operational technical manual to enhance and update knowledge of the agri/field officers as well as other credit officers of the bank.
- ❧ Use of same at general credit awareness programs
- ❧ Use of the short agri guide book as a reference and learning tool for both existing staff and new comers



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4As

AVAILABILITY

ACCESSIBILITY

AFFORDABILITY

ATTRACTABILITY

Thank you!

