RISK STRATEGIES IN AGRICULTURAL CREDITING

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Abstract:In order to strengthen the supply of financial services, quantitative and qualitative, and to help low income clients, there were formulated a number of practices and guide principles. Are included here credit cost reduction, group crediting, individual crediting, risk management. Regarding to cost reduction, the micro lenders have introduced two different strategies: credit products and borrowing procedures, and the productivity of the credit officers. In group crediting has the advantage of growing the lender supply capacity of financial services for low income clients through the reduction of the borrowing administration cost. Individual crediting has the advantage of better screening the a potential debtor by an appraisal of the repayment capacity. Risk management is confronting with crediting risks of debtors with low incomes by selecting a specific target clientele.

Keywords: risk, strategies, credit, financial services

Micro-lenders have developed solutions to high-cost and high-risk issues associated with lending to micro and low-income customers. Over the years, a number of good practices and guidelines have been formulated to strengthen the availability of financial, quantitative and qualitative services, help for low-income customers and the sustainability of microfinance institutions.

Cost reduction

Micro-lenders are confronted with the problem of large costs associated with small loans. In fact, the costs of managing loans do not vary by the amount borrowed. By definition small loans are less profitable for the lender. Moreover, in some networks there are few offices in formal financial institutions. Generally, the establishment and operation of subsidiaries is very costly. Operating costs should be covered by the profits generated by the subsidiary offices. As a result, financial transaction costs are high for borrowers, and they have to move from long distances to the bank branch office. Micro-lenders, however, have found ways to reduce these high costs of offering small loans. Here are some different strategies:

A. Standardization of credit products and loan procedures

Micro-lenders simplify their activities by offering only a few standardized credit products. Typically, it offers short-term loans for working capital and only occasionally provides loans for investments to ordinary (known) borrowers. They have adopted a "lending-only" approach and few micro-lenders provide technical assistance or business preparation to their clients. Some have established collaboration agreements with partner agencies to provide non-financial support services. Loans are kept small and expand over time only a few weeks or months, especially for customers who first call for credits. Debtors with good credit repayment terms are rewarded almost automatically with new loans. Some microcredits increase the size of the following loans using predetermined forms. Although short and short-term short-term borrowing for borrowers for the first time is costly, financial transaction costs can be considerably reduced for well-known borrowers and borrowers. Micro-lenders usually charge debtors with interest rates and fees that are much higher than those used by conventional form creditors. Interest rates must be positive in real terms to protect the value of the loan portfolio against the effects of inflation.

B. Productivity of Credit Officers

Credit inspectors are required to serve a large number of clients. Typically, a credit inspector is assigned between 200 and 300 debtors. To achieve this, the incentives (bonuses) given to the staff for the activity are widely used. These incentives depend on the volume of the loan, the quality of the loan portfolio and the number of low-income clients in remote areas that are assisted (in some cases). While these incentives increase the cost of managing the loan, well-trained and motivated staff are essential and able to increase the overall productivity of financial institutions. This reduces the creditor's operational costs in relative terms.

Group credit

There are two ways of group credit. A micro-lender can borrow a collective entity such as a cooperative or a rural bank, which in turn credits its members. However, the term is used for collective liability or group solidarity loan, so the lender offers loans to individual debtors who are organized in groups. In both cases, group members are collectively responsible for full repayment and timely repayment of loans.

Group credit may have the advantage of increasing the creditor's ability to achieve the availability of financial, quantitative and qualitative financial services, to help low-income customers by reducing the cost of managing the loan. In the first type of credit group mentioned above only one loan is administered for each group. Moreover, group credit reduces the creditor's costs by maximizing the use of inside information and by selecting the borrower. Group members ensure monitoring and repayment of the loan (its execution). However, the costs of group formation are high in most cases. This is true, especially for creditors who do not work with existing groups, They have to support the whole process of forming the group. Also, the costs of maintaining the group are high as long as the needs of the group members and the material situation differ over time, weakening the cohesion of the group. Credit officers must participate in regular meetings of the group in an effort to strengthen the group debt management responsibilities, group cohesion and the emergence of sense of responsibility among group members.

Individual crediting

Micro-lenders use a modified version of traditional bank lending technology that has been adapted to the features of small and short-term loan offer to low-income borrowers. The selection of potential customers is achieved by assessing the individual reimbursement capacity and their willingness to repay. Innovative micro-creditors examine household cash flows and check the creditor's creditor history to get a full picture of repayment and solvency.

The process of collecting detailed information on individual clients is a costly exercise for microcreditors. However, these costs can be reduced by using a standardized request list. Moreover, once the high costs of initiating and establishing a creditor-client relationship have been achieved, the costs of obtaining additional information or of updating existing ones are much lower. Some micro-creditors try to introduce more individual credit terms for members of collectively responsible groups in time. These initiatives are interesting because they combine labor cost savings with high quality groups of individual lending services to group members. In many cases, the loans that followed the first and the repayment of the loan are made by the group or by the lender, which would ultimately lead to relatively high costs for all.

Risk management

Micro-creditors face credit risks for low-income borrowers by selecting a specific target customer. These customers are typically urban micro-entrepreneurs who have some business experience for whom a loan application is applied. Delegation of the lending authority, at branch office level, is achievable at certain dimensions. This gives the certainty that credit officers who are close to customers have an influence on the lending decision. Another element in the risk management strategy of micro-credit is the requirement for debtors to contribute a minimum share of the total investment cost. In individual lending, the duration of the loan and the loan repayment rates are also tailored to the individual debtors' ability to repay. This reduces the risk of default. Normally, substitutions to the credit guarantee are accepted as long as the target customers will rarely have traditional bank guarantees. First-time borrowers need to build a good loan repayment file before receiving larger loans. The main risk management mechanisms of professional micro-lenders are adequate accountability, asset planning and management, the use of internationally accepted accounting standards, and a computerized information management and accounting system. They improve the basis for making an effective decision on time and cost.

CONCLUSIONS

In order to ensure the availability (offer) of financial, helpful, quantitative and qualitative financial services to satisfactory and sustainable low-income customers, agricultural credit institutions should be actively engaged in cost-effective delivery strategies for credit. Then you should develop appropriate credit products and credit technology. Most cost reduction strategies are outlined below.

• using a decentralized operational structure and employing mobile credit and / or mobile offices;

• delegating the credit authority to field personnel;

• recruiting staff with solid knowledge in the fields of: economic engineering, farm management and rural economy;

• provide adequate staff training and use of incentives for staff;

• simplifying credit procedures;

• selecting potential clients and assessing credits through collaboration with local organizations
(agricultural consultants, NGOs and communities)

• integrated banking software for accurate and timely accounting and the establishment of an efficient information management system.

• Diversifying the credit portfolio to balance the variable staffing tasks due to agricultural seasonality.

• Agricultural credit institutions require a proper operational structure to respond to customer requests; it includes well-trained and motivated staff and appropriate credit products.

• Effective operations of decentralized bank branches depend on the delegation of credit to field staff, the existence of adequate and balanced checks, and the use of an appropriate information management system.

• Activity-based incentives strengthen the motivation and productivity of credit officers. Gathering essential market information facilitates the identification of potential customers.

• Farmers' classification of agricultural production systems, farm inputs and main agricultural commodities helps define the actual demand for credit products. These high costs of collecting specific information on solvency and the ability to repay future customers' loans can be significantly reduced through collaboration with local organizations.

• It is important to set lending rates on market terms to fully cover the transaction costs of agricultural loans.

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