

# SWOT Analysis for Agricultural Banking

## KNOWLEDGE NOTES

## Overview

As in any business, strategic planning in agricultural banking is essential. Taking the time regularly to review the bank's past agricultural lending performance and to predict future performance provides a good roadmap of where to head in the future.

Strategic planning tries to answer three basic questions: Where are we now? Where do we want to be? How are we going to get there? SWOT analysis is a commonly used strategic planning tool that can help businesses, including agricultural banks, identify key areas and factors to consider when answering these questions. SWOT stands for Strengths, Weaknesses, Opportunities, and Threats. For agricultural banks, strengths, weaknesses, opportunities and threats are defined as follows:

- **Strengths**—The Strengths section of SWOT refers to those strong qualities that the bank already possesses. These factors are internal to the bank and reflective of its physical and human resources. For example, a bank's strengths may include a quality agricultural loan portfolio, quality staff with a good understanding of agriculture and businesses to serve in rural areas, high client retention, and effective marketing materials.
- **Weaknesses**—The Weaknesses section of SWOT lists the areas where the bank is failing to meet its business goals, which unless improved can lead to failure. These factors are also internal to the bank and reflect its physical and human resources. For example, a bank's weaknesses may be a poor management information systems insufficient to capture good data about its rural customers, high incidence of non-performing agricultural loans, poor staff capacity and morale to adequately serve farmers and agribusinesses.
- **Opportunities**—The Opportunities section of SWOT identifies the areas where the bank has room for growth or could take advantage of new opportunities in the marketplace. These factors are generally external to the bank and are reflective of the current business environment.

For example, a bank's opportunities may include a high-potential rural region where there is little competition, new regulation that permits the use of new collateral forms, e.g., buyer contracts, stocks, warehouse receipts, or a new tax incentive for banks financing agriculture.

- **Threats**—The Threats section of the SWOT lists the factors that are external to and outside the control of the bank. These factors are also reflective of the current business environment, and if not properly recognized and addressed, may cause serious harm and failure to a bank's agricultural lending business. For example, a bank's threats may include government mandated interest rate caps and price controls on key commodities, increased taxes on profits and capital gains, increased competition among others.

Once these factors are identified, strategies and tactics are developed to enhance strengths and opportunities, and mitigate weaknesses and threats.

Prior to launching into the actual SWOT analysis in your own bank it may be useful to reflect upon the following recommendations.

**Why should SWOT be used?** It offers a simple, efficient way to identify key factors that need to be considered in agri-finance for business success. It helps answer the questions, "Where are we now?" and "Where do we want to go?"

**Who should use SWOT?** It can be used by any bank undertaking strategic planning for their agricultural banking business. It is a simple way to answer key questions about the organization and the business environment in which it operates. Generally, business planning sessions work best

- Is there strong tracking of portfolio quality by business unit, with rapid corrective action taken when problems arise?

**3. Products and services:** Do we have a good range of products and services that rural, agricultural customers need and use? Are our prices and services competitive with other banks in the area? Do we have a good system of new product development and rollout? Can we ensure good outreach? Do we have modalities of operation (e.g., mobile operations) to effectively and efficiently reach farmers and rural businesses?

#### 4. Technology and MIS Capabilities

- **Solid IT and MIS department**, which provides timely, tailored data and reports on agricultural loans by client segment and sector to top and line managers.

- **Solid Core Banking System**, with business, customer and product coding which enables breakdown of lending, portfolio quality, efficiency and profitability by major business, customer and product groups.

- **Loan Origination System**, which enables tracking of loans and the collection of key data on customers and loans beyond what is normally collected in the Core Banking System.

- **Customer Relationship Management System**, which enables tracking of customer interactions and services, targeting of clients for cross-selling, and recording of customer satisfaction.

**5. Leadership:** Is the leadership and management team appropriate for the task of leading and running the organization successfully? Do they have the vision, commitment and strategy needed to achieve the agri-bank's objectives?

**6. Human Resources:** Are employees well trained, experienced, in adequate numbers, in proper locations, and well led? Do they have agricultural expertise? Are there adequate training

programs for agricultural lenders? Are there key people management functions which support good agri-finance operations?

**7. Facilities and Infrastructure:** Are buildings and locations adequate? Are they properly located in rural, agricultural areas to tap into agricultural markets? Are they secure?

### Sample External Factors: Opportunities or Threats

#### 1. Agricultural Economy/Market:

- What is the condition of the agricultural economy, local and global? Is our agriculture concentrated or diverse?

- What farming practices are used? Are they modern and progressive?

- Is there an adequate number of commercially oriented farmers in target geographies? Is there scope for aggregation of small holder production with good access to markets?

- What are the main agricultural commodities in the regions we serve? What are the price, yield and growth trends?

- How organized are the value chains across commodities? Are there opportunities to develop strong, profitable arrangements such as partnering with agribusiness, which provide improved inputs, advice and procurement to farmers?

- Who else is serving farmers, traders, processors in this agricultural sectors/value chains? How many are there? Are they a threat to our market share?

- How many and what are the quality of farm input and equipment suppliers, and other support services, e.g., animal health, extension, etc.

- What opportunities do we have to leverage players in key value chains to achieve our objectives for agri-finance?

## 2. Agricultural policies affecting agri-finance:

- What policies support or undermine private sector procuring directly from farmers and building effective value chains?
- Are there price controls which undermine profitability for farmers and others in the value chain?
- Do land tenure and use policies support or undermine clear titles and/or purchase and lease of land?
- Are there adequate government policies and development of rural infrastructure—roads, electricity, water and export infrastructure?
- Are interest rate caps imposed by government?

## 3. Financial sector policies affecting agri-finance:

- a. Do interest rate policies enable financial institutions to charge rates which enable a profit on agri-finance loans?
- b. Are there government policies and execution on crop and weather insurance?
- c. Are there government policies which force banks to forgive agricultural loans?
- d. Are there mandatory lending policies requiring that a significant percentage of the portfolio is lent to farmer?
- e. Are there credit bureaus which enable the financial institution to check credit history of potential borrowers, ideally reflecting loan repayment history with regulated and unregulated financial institutions and history in paying other bills?
- f. Is there strong contract law enabling financial institutions to gain access to property and other collateral in the event of loan non-payment?

4. **What is the risk of animal or plant disease epidemic or pandemic?** How can the risk be mitigated? Is there insurance to address these risks? How much does it cost? Is there a potential to partner with insurers to offer our clients a better product?

## An Example of SWOT Analysis

To see how a SWOT is done in practice the following example is provided to illustrate the concepts.

**Agricultural Bank—AGRO:** AGRO has a total agricultural portfolio of \$100 million, financing businesses, cooperatives, processors, and agricultural supply dealers in the agricultural value chain, with little direct lending to agricultural producers. Most of these businesses are involved in maize production. The value chain players would like to withdraw from direct producer financing and have AGRO finance producers directly. AGRO has decided to do some planning to consider whether it should do this. They are using the SWOT technique to help them consider alternatives, and developed the SWOT list below through a facilitated planning session. They were able to converge on a small number of key points:

After the SWOT is completed, action plans need to be developed based on the conclusions from the SWOT. These will usually be done by the board and leadership team. **First, the action areas need to be prioritized.** Simply because something shows up on the list does not necessarily mean that it needs to have an immediate action plan. Some things can, and must be, deferred. After all, resources and capabilities are limited.

The final Action Plans should include, at a minimum, an explanation of what needs to happen, by when, and by whom. For AGRO Bank the following action plans were developed:

that include board members, senior leaders, and managers. While it may be tempting to include individuals from operations or staff levels, doing so may change the focus of discussion from strategic to operational issues. Certainly, operational issues must be properly addressed, but a strategic planning session is not the time to address them. Be sure that participants in the planning process can operate at a strategic, rather than operational level.

**When should SWOT be used?** Most banks use SWOT in conjunction with annual strategic business planning sessions. It can be used any time significant business or competitive questions arise. For example, if a major new initiative is being considered, such as a move into a new industry not currently being served by your ag bank, such as dairy, swine, palm oil, vegetable crops, etc., a planning process using SWOT can be very helpful.

**Where should SWOT be used?** Anywhere. It is best used in a strategic planning environment where openness, trust, and respect are present. It can also be used whenever a major change is being considered, such as financing new agricultural enterprises or expanding into new ag markets. However, participants in the process need to feel safe. If people feel any kind of threat, or fear to speak freely, it will not work properly.

**Who should run the planning process?** Ideally, an experienced, unbiased facilitator, who is familiar with SWOT analysis, can be found to facilitate the planning process. However, an experienced, trusted senior leader within the bank can play this role. However, if an internally facilitated approach is chosen, the bank needs to be aware of the facilitator's inherent biases, limitations, and the fear he may engender in participants.

## Specific Business Factors to Consider in SWOT Analysis

Remember that Strengths and Weaknesses are factors that are internal to the bank whereas Opportunities and Threats are areas that are external and reflective of the business environment in which a bank operates. To conduct

SWOT analysis it is sometimes useful to have a list of example internal and external factors that a bank can consider in analyzing the strengths, weaknesses, opportunities and threats related to its agricultural banking business. Here are some examples for you to consider:

### Sample Internal Factors: Strengths or Weaknesses

#### 1. Overall Financial Position of the Agricultural Bank

- **Capital:** Consider all relevant capital ratios as set by your regulator or your own targets and goals. Consider the volatility of agri-finance as you consider appropriate capital levels.
- **Assets:** What is the quality of the agricultural loan portfolio? Consider adverse, criticized, past due, and non-earning assets. Are portfolio management practices correct?
- **Earnings:** Interest margins, profitability (ROA, ROE), efficiency ratio.
- **Liquidity:** Are assets and liabilities properly matched?
- **Sensitivity:** If interest rates suddenly change, are you properly positioned?

#### 2. Credit and Risk Management Systems

- Are there effective, reliable and efficient processes for appraisal of loans to farmers?
- Are there prudent norms and standards for risk diversification by loan segment, product and geographic area? Do they consider volatility in agricultural production, pricing, weather, evolving customer needs and technological advances?
- Is there strong engagement of risk, credit and commercial departments to build responsive loan policies, credit scoring and parametric models where appropriate?

<p style="text-align: center;"><b>Strengths</b></p> <ul style="list-style-type: none"> <li>■ We are very well capitalized with a track record of strong earnings over many years</li> <li>■ Our agricultural portfolio is currently of good quality, with NPLs of less than 5 percent</li> <li>■ We have a very capable team that has much knowledge about the key agricultural sectors we are targeting.</li> <li>■ We have branch facilities in the rural areas we want to serve</li> <li>■ Many of the farmers we want to serve with agri-finance are already deposit customers</li> </ul>	<p style="text-align: center;"><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>■ Our agricultural portfolio is heavily concentrated in the maize sector</li> <li>■ Greater risk profile in financing individual producers-requires more capital and more staff with different skills than we currently have</li> <li>■ Our MIS and CRM systems need to be updated to handle greater customer numbers and agriculture specific information.</li> <li>■ Our risk management policies have not been updated to accommodate our planned expansion into new agricultural commodities</li> </ul>
<p style="text-align: center;"><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>■ We can offer more services to more individual farmers in a broader geographic area</li> <li>■ There are other promising value chains we can work in, like dairy, poultry and horticulture, all growing at more than 5% per year.</li> <li>■ Through our value chain partners we can minimize costs and share risks to finance farmers.</li> </ul>	<p style="text-align: center;"><b>Threats</b></p> <ul style="list-style-type: none"> <li>■ Maize prices have been volatile over the last 12 mos.</li> <li>■ AgFin Bank finances all actors in the maize value chain.</li> <li>■ Our value chain partners may not want to share in risk of financing their suppliers.</li> <li>■ There is a draft legislation on capping interest rates for agricultural loans to producers to 6%.</li> </ul>

## A Few Final Tips

Through this exercise you may have begun to recognize that SWOT analysis is an excellent way to bring focus to strategic planning. Using SWOT, you can identify key areas where your organization has specific Strengths and Weaknesses and areas where there are external Opportunities and Threats to your agricultural banking business. SWOT analysis also helps you to prioritize your findings and develop action plans based on your priorities.

When conducting a SWOT analysis in your own bank it is recommended to engage an experienced, unbiased facilitator to assist in strategic planning exercise. The facilitator should ensure

an atmosphere of trust and respect amongst the team members and encourage participation by everyone. But most important of all it is the facilitator's job to make it happen and make it fun. And once the SWOT analysis is complete with the action plans it should be share with everyone in the organization

In summary, SWOT analysis is an essential tool in the agri-finance strategic planning process or when your bank is considering making a major business change. It identifies strengths, weaknesses and areas where action or new tactics are needed to mitigate risks or seize new opportunities. It is a simple tool that can make your agricultural bank more successful.

Action	Interim Steps or Actions	To Be Completed by Date:	By Whom
Develop list of agricultural customers currently using deposit or other bank services. (See Strengths 1-5 and Opportunities 1 & 2 in SWOT above)	<ol style="list-style-type: none"> <li>1. Develop list of current deposit customers.</li> <li>2. Select ones most likely to want or need direct financing.</li> <li>3. Develop and implement marketing plan to reach out to potential new customers.</li> </ol>	<p>January 1 February 1  June 30</p>	Samuel J.
Develop recruitment and training plan for new employees to serve agricultural customers in rural areas. (See Weakness 2 and Threat 1 in SWOT above.)	<ol style="list-style-type: none"> <li>1. Recruit new employees from local colleges or competitors</li> <li>2. Develop training plan for ag loan officers and analysts.</li> <li>3. Have lenders hired and in place ready to serve ag customers.</li> </ol>	<p>March 1  June 1  October 1</p>	Jane S.
Investigate new technology platform that includes features specified to handle increased number of rural ag customers. (See Weakness 3 in SWOT above.)	<ol style="list-style-type: none"> <li>1. Develop list of desired features</li> <li>2. Present to senior leaders for budget approval</li> <li>3. Send Request for Proposal to at least three vendors</li> <li>4. Review and accept bid</li> <li>5. Install new systems</li> </ol>	<p>March 1 April 1 June 1  September 1 February 1</p>	Robert M.
Develop formal risk management strategy with contingency plans based on the expected surge of new agricultural customers. (See Weaknesses 1 & 4 in SWOT above.)	<ol style="list-style-type: none"> <li>1. Study Enterprise Risk Management protocols.</li> <li>2. Evaluate major risks.</li> <li>3. Develop plans and policies to mitigate risks</li> <li>4. Implement policies and contingency plans</li> </ol>	<p>January 1 February 1 March 1 April 1</p>	Bosco W.

## References and Resources

[http://en.wikipedia.org/wiki/SWOT\\_analysis](http://en.wikipedia.org/wiki/SWOT_analysis)

<https://www.fdic.gov/bank/statistical/stats/2014sep/industry.pdf>

<https://www2.fdic.gov/qbp/2014sep/cb5.html>

<https://www2.fdic.gov/qbp/2014sep/cb1.html>

<http://www.kansascityfed.org/publicat/research/indicatorsdata/agfinance/tables.pdf>

**Join AgriFin**  
<https://www.agrifinfacility.org>

