

USAID COPY PN. ABZ-096
91460

Swazi Business Growth Trust



P.O. Box 78 EVENI
Embassy House
MBABANE
Tel. 44705
Fax: 44783

STRATEGIES FOR AGRO-INDUSTRIAL DEVELOPMENT

PREPARED BY:

Ezekiel Benard Phiri

February 13, 1995

1st Floor Embassy House, Morris
Street

1. INTRODUCTION

The Agro-industrial Sector in Swaziland is an acknowledged key component of sustainable economic development. A lot of resources in the sector appear not to be fully tapped and a lot of potential exists for the development of the sector. Restricted access to credit facilities has contributed to the limited growth and expansion of the Agro-industrial sector in the country. Furthermore, the lack of training and encouragement from the ministry of agriculture as well as the university have kept farmers focused on traditional crops and agricultural activities

SBGT's Agro-industrial Program will seek to improve the availability of credit to the sector by customising SBGT's available loan facilities to the special needs and special nature of enterprises in the Agro-industrial sector. The program will also endeavor to educate farmers and introduce them to new or alternative agro-industrial opportunities.

2. DEFINITION OF THE SECTOR

For the purpose of SBGT loans, all enterprises engaged in activities that are related (linked) to agriculture or enterprises involved in the processing or handling of agricultural output, will be considered agro-industrial enterprises and will be eligible for assistance under the Agro-industrial program. By virtue of this definition, SBGT loans will be open to viable agricultural projects as well as viable processors, distributors of agricultural inputs and distributors of agricultural produce as outlined in the sections below.

2.1 Primary Agricultural Projects

Primary Agricultural projects include all farms engaged in the growing of various produce for commercial purposes. Financial assistance to such projects will essentially be geared towards helping to reduce the cash flow burdens faced during critical times during the cropping cycle and provide working capital for the acquisition of essential agricultural inputs. Financing for the purchase of essential farm equipment may be considered in special circumstances if the need for, and the financial viability of, such equipment can be justified.

The SBGT's Agro-industrial program will aim at assisting farmers who may be engaged or aiming to involve themselves in any of the following farming operations (the list is not supposed to be exclusive):

The Sugar farming (for supplying to the sugar factories)

Oil seeds Farming

Seed Multiplication Projects

Horticulture

- Commercial growing of Bananas

Eligibility for Farming Loans

For Clients to join the program for farming loans, they should:

- 7 a) be growing a product or products for a single buyer or on contract basis;
- b) have proven farming experience, on the farm, evidenced by at least 2 years of successful farming results (supporting documentation of past results will be required); and,
- c) be full time managers of their farming operations.

Farmers intending to introduce new and more profitable crops on their farms will be encouraged subject to the new crop having a special buyer.

Applicants will be required to submit to SGBT:

- a) accounts or records showing sales and expenses (Revenues and expenditure) for at least two years of operation;
- b) a business plan showing
 - i) details of the farm including size, type of land, crops grown and yields achieved in the past;
 - ii) the purpose of the loan required and the expected benefits to the overall farm operations ;
 - iii) a cash flow projection indicating the farm's capability to repay the loan;
- c) documents certifying that marketing arrangements have been made with a reputable buyer of the produce; and,
- d) documents certifying title to property (which may not necessarily be the farm) offered as collateral; and,

Repayment of farming loans will be by way of a Crop Payment Order in favour of SGBT authorising the buyer of the crop to send all the sales proceeds from the sale of the crop financed to SGBT. A sample Crop Payment Order is attached as Appendix 1.

2.2 Live Stock Farming

Requirements in the livestock industry will tend to vary from project to project. However, in view of the fact that there may be need to set up new ventures in some areas of the country, SBTG will take exceptions and channel some financial assistance to start up projects, especially in the poultry farming category. Proven Technical competence in livestock management will be an essential criteria for eligibility to SBTG's loan. The client will have made proper marketing arrangements prior to submitting an application to SBTG. Assistance to the live stock sub-sector will be channelled to **poultry farmers (Broilers and or Egg Laying units), piggery units and dairy farms.**

Financial assistance to livestock farmers will essentially be for: the provision of working capital to increase livestock herds or feed stocks or feeder stocks; the purchase of various types of equipment essential in livestock farming including cages, feeders, drinkers, troughs, feed making equipment, milking equipment, storage equipment etc. All applicants will be required to provide finance for the construction of animal houses.

Livestock Farming clients will be required to submit to SBTG :

- a) a business plan showing:
 - i) the total cost of the project proposed, the purpose of the loan required and the financial benefits expected;
 - ii) a cash flow projection showing the project's capability to repay the loan;
 - iii) details of management proposed for the project.
- b) evidence of markets identified and / or contracted for;
- c) copies of produce licenses held or evidence of membership in a co-operative society;
- d) details of collateral proposed for the loan.

Existing livestock farmers will be required to submit financial statements indicating their past performance for at least two years. Starters will be required to make a financial contribution of not less than 20 percent towards the total set-up cost.

2.3 Agro-Processing and Agro-trading

It is expected that a large number of the agro-processing projects will be new ventures requiring a start-up financial package. Such proposals will require detailed appraisals of the market, sources of materials and proposed management. Clients opening up a new processing enterprise will be required to make a financial contribution of not less than 20

percent of the start-up requirements. Some examples of agro-processing ideas that are expected to arise are :

- a) Oil Extraction Projects (Sun flower / cotton Seeds oils)
- b) Processing of natural fruits (e.g Guava)
- c) Chicken Slaughtering houses
- d) Abattoirs
- e) Production of Cattle feeds
- f) Processing of chicken feeds
- g) Butcheries
- * h) Vegetable Packing houses

Agro-processing clients will be required to submit to SGBT:

- a) a business proposal indicating:
 - i) the total cost of the project proposed, the amount of loan required and the expected financial benefits;
 - ii) financial projections showing the expected financial feasibility of the proposed project, at least for the life of the loan requested;
 - iii) details of proposed management indicating capabilities and experience;
- b) confirmation that the client is able to make a financial contribution;
- c) evidence of the existence of an adequate market to ensure the long-term profitability of the processing operation ;
- d) copies of licenses;
- e) details of security being proposed for the loan , including evidence of title and value.

Investments in the agro-processing sector may be given for a period of up to three years.

2.4 Agro-Traders

Major needs for agro-traders will mostly be working capital for the purchase of trading stocks, and other immediate working capital requirements. Equipment loans, especially in the

case of packing houses, may be necessary. SBTG's current loan products should adequately cover these needs. Agro-traders would include distributors of agricultural inputs such as seeds, chemicals and fertilizers as well as produce buyers and packing houses.

3. LOAN PROCESSING PROCEDURES

3.1 General

All applicants must be requested to purchase an SBTG Access Card and submit a complete loan application form. All the information required under each category of project should also be submitted. Clients may request SBTG to assist with the preparation of the business plan and cash flow projections, subject to SBTG's normal charges.

3.2 All applications for Agro-industrial Loans will be appraised by the Agro-industry personnel in Mbabane and Manzini. In appraising the Loans, SBTG will look for the following:

- a) The borrower's past performance including the character and integrity of the entrepreneur,
- b) the borrower's future plans to determine whether targets set in the business plan are achievable;
- c) the existence of a Market supported by valid customer's orders or contracts in the case of Primary agriculture loans and livestock farms;
- d) the purpose of the proposed investment;
- e) the adequacy of security;
- f) the entrepreneur's capability of properly manage the investment.

4. PROPOSED LOAN TERMS

a) Types of Loans Applicable

The following forms of finance will be available to the Agro-industrial sector:

- Working Capital loans
- Equipment loans

a) Repayment Period

Working Capital Loans:

Working Capital loans will be extended for periods not exceeding 12 months, except that in the case of general farming projects, the whole loan plus interest will be payable in full from the proceeds of sale of the crop financed. Farmers would be allowed a roll-over facility when the first working capital loan is repaid.

Equipment Finance

Equipment finance would be extended for up to 18 months or two cropping seasons in the case of farming projects. Agro-processors may be given equipment finance for up to 36 months. Equipment loans will not be extended for periods in excess of economic life of the equipment financed.

b) Interest Rate

All loans will, for the time being, attract interest at 24.5% per annum on the reducing balances.

c) Mode of Repayment

Farming clients will be expected to repay their loans by a Crop Payment Order against the proceeds of the crop financed. All other clients will repay their loans by way of equal monthly installments by Bank standing order.

d) Security Requirements

SBGT will accept almost any available asset as security which may include any or a combination of the following:

Mortgages over leasehold or freehold land and buildings;

Debentures;

Moveable assets such as equipment and vehicles;

Liens over Bank Deposits (Fixed Deposits);

Lien over sales proceeds;

Life assurance policies; and,

Third party guarantees supported by any of the above.

5. **ORIGINATION FEES**

Applicants will be required to pay an origination fee equal to 2 percent of the loan but not exceeding E1,500.

6. **DISBURSEMENT PROCEDURE**

The applicant will be required to sign legal documents within 14 days from the date of SBGT's loan offer letter. Disbursements will not commence until all documents have been signed and executed.

Disbursements will be made by use of the Smart Card system. Farmers' drawings will be based on the provisions made in the cash flow projection forming the basis of SBGT's approval of the loan. Whenever deemed necessary by SBGT, disbursements will be made direct to suppliers against suppliers' invoices or pro-forma invoices.

7. **MONITORING PROCEDURES**

Agro-industrial loans will be monitored by monitoring officers in GTC offices on a regular basis. Farming projects, however, will be monitored regularly by the Agro-Industrial Technician for purposes of monitoring crop development during the various stages of the cropping cycle. Special visits may be made to borrowers mainly as a follow-up to disbursement and repayment.

SBGT will seek to strengthen linkages with other institutions involved with its agro-industrial clients in various areas of the country and seek technical support from such institutions in monitoring the technical performance of its clients. Such linkages are expected with institutions like CAPM project, etc..

8. **COLLECTION PROCEDURE**

Repayments will be by way of stop orders with the applicant's buyers or bankers. A penalty charge equal to 2 percent of the amount overdue will be charged on all amounts due but not paid within 30 days.

FARMERS' CROP PAYMENT ORDER INSTRUCTION

Created By : ("the farmer")

In Favour of: The Swazi Business Growth Trust ("SBGT")
 P O Box 78 Eveni
 Mbabane

Name of Farm:

Registered No(s)

AS security for the sum of E..... (.....)
.....) advance or agreed to be advanced from time to time by SBGT by way of loan to the Farmer as well as security for such further sums as may be advanced from time to time to the farmer by SBGT or paid or to be paid on its/his/her/their behalf under any guarantee by SBGT together with all interest commission and according to the usual mode of SBGT in dealing with loans of similar nature (as well as after or before any judgement obtained by SBGT for recovery of the debt due from the farmer to SBGT hereunder) the farmer as beneficial owner hereby irrevocably and unconditionally:

- 1 assigns to SBGT all its/his/her/their growing or future (crop name) crop or any other crop or crops substituted therefore on the farm/estate; and;
- 2 assigns to SBGT all proceeds of the farm's/estate's growing or future(crop name) crop(s) or any part thereof of any crop or crops substituted therefore grown or to be grown on the farm/estate; and
- 3 authorises, in terms of the form of Letter of Authorisation annexed hereto, the
..... (Name of Buying Company or Organisation) its successors in title or assigns to pay to SBGT in or towards the discharge of all monies and liabilities hereby secured in respect and to the extent of the said finance facility and any other sums due hereunder and the interest commission and other charges thereon; and
- 4 confirms and declares that this order and Letter of Authorisation shall remain irrevocable on its/his/her/their part and that it shall not be cancelled or suspended in any manner whatsoever without the written instructions of SBGT.

THE expression "farmer" and "SBGT" shall wherever the context so admits include their respective successors in title and assigns.

DATED *this* day of 199..

SIGNED by:)

.....)

for and on Behalf of:

.....)

.....)

Witness:

Signature:.....

Name :.....

Address :.....

.....

Position :.....

SIGNED by:.....)

.....)

for and on behalf of

The Swazi Business Growth Trust

10