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TEA IMPROVEMENT LOAN PRODUCT FOR KAYONZA

FINAL REPORT



December, 2006

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Rural SPEED

Rural Savings Promotion & Enhancement of Enterprise Development

TEA IMPROVEMENT LOAN PRODUCT FOR KAYONZA FINAL REPORT

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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ACRONYMS

ADF	African Development Foundation
ASPS	Agricultural Sector Programme Support
GOU	Government of Uganda
KGTF	Kayonza Growers Tea Factory
Kg	Kilogram
LTD	Limited
MDI	Micro-Deposit Taking Institutions
MF	Microfinance
MFI	Microfinance Institution
MoU	Memorandum of Understanding
NPK	Nitrogen, Phosphorus and Potassium fertilizer
Rural SPEED	Rural Savings Promotion & Enhancement of Enterprise Development
SACCO	Savings and Credit Cooperative
SOW	Scope of Work
UGX	Uganda Shilling
UgS	Uganda Shilling (only used in Appendix A)
USAID	United States Agency for International Development
UTDAL	Uganda Tea Development Agency Ltd.

EXECUTIVE SUMMARY

Since 1987, the Government of Uganda (GOU) has instituted major economic policy reforms to encourage the financial sector to become increasingly efficient, productive, and competitive. Uganda is well on its way to having a vibrant and reasonably deep financial services sector. Despite recent growth and liberalized economic policies, only ten percent of the rural population has access to basic financial services. In addition, both the formal and the informal financial sectors still require structural changes to be able to provide the range and depth of financial services that individuals and businesses require.

USAID/Rural SPEED's objective is to deepen and strengthen Uganda's financial sector in response to the rural sector demand for financial services. The increased provision of financial services should leverage economic activity to complement other USAID/Mission programs in rural areas. The resulting increase in economic activity should aid the GOU in achieving the target economic growth rates proposed in Poverty Eradication Action Plan

The focus of the consultancy was on the development, in close collaboration with the Kayonza Microfinance SACCO's management, of a tea improvement input loan product. During the initial meetings with the SACCO's and Kayonza Growers Tea Factory's managements (KGTF) it became evident that one single input loan product would not be sufficient to meet the needs of both the medium and large tea farmers, as well as the smaller growers. As such, a second tea improvement labor loan product has been proposed to the SACCO.

The two loan products, the "Tea Improvement Input Loan" and the "Tea Improvement Labor Loan," are structured to conform to the business cycle of the tea farmers. The first has a five (5) month loan term, with a one-month grace period for interest and a two-month grace period for principal. Tea farmer will receive two successive input loans each year. The second is a month by month advance with repayment, including interest, at the end of each month period.

The labor loan product is only available to the tea farmers that demonstrate the greatest production capacity along with the ability to use the labor loan product to increase the overall production. The loan product is similar to a fixed line of credit; i.e., the maximum monthly labor amount is set at the beginning of the loan and it is renewed at the beginning of each month during the entire loan term. The loan term will vary from one to twelve months.

In order to qualify for the loan products the tea farmers must:

1. Be a registered tea farmer with the KGTF;
2. Meet the minimum production and/or tea garden size requirements set by KGTF;
3. Sign a written statement listing all tea gardens that are owned or managed;
4. Instruct KGTF to directly deposit payments directly into their SACCO account;
5. Not be in arrears or have defaulted on any previous loans from KGTF;
6. Be or become a member of the Kayonza Microfinance SACCO, Ltd.;
7. Not be in arrears or have defaulted on any previous SACCO loans;
8. Meet the minimum share and savings requirements for loan amount requested;
9. Open up a compulsory savings account linked to the tea improvement input loan;

10. Agree to make monthly compulsory savings deposits on a predetermined amount a minimum of 24 months; and

11. Fulfill additional requirements of the SACCO or KGTF for quality tea production.

Loan recovery will be by direct withdrawal of the appropriate installment amount from the tea growers' green leaf payment that KGTF pays directly to their SACCO accounts.

Implementation of the loan product is linked to the availability of an initial Input Revolving Fund that will be progressively replaced by member savings. As such, the additional compulsory savings (fixed term) account is expected to build up the SACCO's internal (capital) funding capacity to provide input and labor loans and therefore replace the initial input revolving fund within a 24-month period. Currently, the initial revolving fund of approximately US \$ 200,000 has still not been secured.

It is therefore recommended that:

- 1. USAID/Rural SPEED work quickly to identify the appropriate donor and secure the input revolving fund.

This is the most critical issue outstanding and conditions all other activities.

- 2. A detailed MoU must be developed between the SACCO and KGTF.

This should be facilitated by Getachew M. Tache to ensure that all of SACCO and KGTF concerns are addressed and that each is clear on their respective roles and responsibilities.

- 3. USAID/Rural SPEED should assist the SACCO Board and Management to modify, approve and internalize the draft Tea Improvement Loan Product Manual.

- 4. The computer system needs to be upgraded at the Kayonza MF SACCO office and MicroBanker for Windows installed.

This would include the both the initial set up and operational training for the new software; i.e., loan product definition, etc.

- 5. USAID/Rural SPEED should assist KGTF to develop a short reporting program (sub-routine) that can extract the required data on growers from their current data base program.

This should be done to ensure that the SACCO can use the recommended standard credit scoring method to approve tea growers for loans data must be available in a timely manner and standard format from KGTF.

The consultant who has developed the latest version of the SACCO Performance Management Tool would be the ideal candidate to create the necessary program.

- 6. The promotion tools being developed by "Mango Tree" need to be finalized and duplicated so that an effective promotional campaign can be initiated.

- 7. A promotion strategy needs to be developed and implemented to quickly and effectively role out the tea improvement loans and compulsory savings products.

The strategy will include the roles and responsibilities of all the partners and not just the SACCO and KGTF.

SECTION I

BACKGROUND

Introduction

Since 1987, the Government of Uganda has instituted major economic policy reforms to encourage the financial sector to become increasingly efficient, productive, and competitive. Uganda is well on its way to having a vibrant and reasonably deep financial services sector, with fifteen commercial banks, seven commercial credit institutions, four licensed and one potentially licensed micro-deposit taking institutions (MDIs), numerous microfinance institutions (MFIs), and member-owned savings and credit cooperatives (SACCOs). Despite recent growth and liberalized economic policies, only ten percent of the rural population has access to basic financial services. In addition, both the formal and the informal financial sectors still require structural changes to be able to provide the range and depth of financial services that individuals and businesses require.

USAID/Rural SPEED's objective is to deepen and strengthen Uganda's financial sector in response to the rural sector demand for financial services. The increased provision of financial services should leverage economic activity to complement other USAID/Mission programs in rural areas. The resulting increase in economic activity should aid the GOU in achieving the target economic growth rates proposed in Poverty Eradication Action Plan. The USAID/Rural SPEED project is supporting and executing activities in the following 2 areas:

1. Institutional Capacity Building, including:
 - a. Savings mobilization;
 - b. Agricultural Finance;
 - c. Non-agricultural finance; and
 - d. Bank/MDI/MFI/SACCO Linkages.

2. New Product Development and Service Delivery

Kayonza Growers Tea Factory (KGTF), a large agribusiness firm currently purchases green leaf tea from approximately 4,000 outgrowers in Kayonza (Kanungu District) for which they forward contract, provide inputs on credit and pay cash for output. Since 2003, KGTF has been under the direct ownership of the growers. As KGTF was previously parastatal, it was in the practice of providing inputs to tea growers at a subsidized price and deducting payments for the green leaf deliveries. This is a practice the new owners (the growers themselves) wish to end as quickly as possible so as to exit the input (fertilizer and herbicide) provision business and thus be able to pay a higher price for the green leaf itself.

In order to achieve this, input provision credit must be moved from the factory's responsibility to a commercially viable financial intermediary. Based on previous work done by USAID/Rural SPEED, the most appropriate way to achieve this will be through the establishment of a tea improvement loan product through a local SACCO, which would support the same clients as the factory, in addition to other community members.

USAID/Rural SPEED has conducted two key pieces of technical work in Kayonza leading to the development of a strategy for assisting the SACCO in achieving this objective. The first was to develop a value chain map of all key transactions from input supply to the terminal market for Kayonza's tea. This exercise established that tea growers, as a whole, are cash flow positive through the various phases of their production cycle and thus demonstrated that and factory provision of subsidized inputs is not a binding constraint to them meeting their input needs. The fact that they are cash flow positive further firmly establishes that they are capable of accessing and repaying unsubsidized input loans.

Building on the information from the value chain map, combined with the knowledge that a large market for input credit would soon be underserved (when the tea factory stopped this activity), a second technical research was conducted to determine if a SACCO system could be developed to provide inputs to Kayonza's growers on credit. The result of the second research was that a tea input loan was feasible and, rather than establishing a new SACCO, could be executed by an existing SACCO, namely the Kayonza Microfinance SACCO Ltd.

Beyond the need for a credit provider, actual productivity of quality tea needs also to be addressed. In order to earn a reasonable return and pay full costs for inputs and input finance, farmers must be sure to get every possible shilling out of their business. In order to address this, Rural SPEED has partnered with several other organizations to address various aspects of the tea production and marketing function. These include Imani Development, DANIDA/ASPS and one or two (yet to be determined) providers of revolving funds to capitalize an input credit product for a period of two years.

Rural SPEED is therefore in the process of developing "*Tea Improvement Loan Product*," which goes beyond a simple input loan under this consultancy. The process includes timely disbursement of inputs (currently a major problem), targeting of farmers adopting best plucking practices, and utilizing the tea factory database to credit score potential borrowers.

Scope of Work

The objective under the scope of work (SOW) was to develop a tea improvement loan product for Kayonza Microfinance SACCO Limited including policies and procedures for appraising, disbursing, monitoring and recovering the loan, as well as including a component of forced savings to provide the SACCO adequate "loanable" funds to finance input procurement in the future.

The specific tasks were to:

- Review the findings of the feasibility study and establish the current status of the of the other partners' complementary interventions;
- Develop a product and manual addressing the following issues:
 - Management and repayment systems for handling a revolving fund;
 - Loan appraisal techniques using the Kayonza Tea Factory's database;
 - Loan recovery mechanisms using deductions from the KGTT payments;
 - Loan product structuring to best conform to the tea growers business cycle;
 - Development of a compulsory savings product to initiate capital formation in the SACCO, which can replace the revolving fund;
 - Marketing techniques to promote the product to tea growers; and

- Policies and procedures embodying all of the above.
- Train the SACCO board and management in all aspects of the product.
- Write a brief final report covering the activity and including further recommendations to ensure the success of this product and the SACCO.
- Debrief USAID/Rural SPEED and USAID.

As such, the work plan dates for the assignment under the SOW are shown in Table 1.

Table 1 Consultancy Work Plan Calendar

FROM	TO	ACTIVITY
November 27, 2006	November 28, 2006	Travel from Toledo to Entebbe
November 29, 2006	November 29, 2006	Briefing in Kampala and travel to Kayonza
November 30, 2006	December 4, 2006	Work in Kayonza to prepare loan product manual.
December 5, 2006	December 5, 2006	Return travel to Kampala
December 6, 2006	December 6, 2006	Finalization of loan product manual. Preparation of draft report
December 7, 2006	December 7, 2006	Presentation of draft report and revisions. Handover of final report. Travel from Entebbe to Nairobi
December 8, 2006	December 8, 2006	Travel from Nairobi to Toledo

The total number of work days under this part of the consultancy assignment was eleven (11), which includes international travel from the United States.

SECTION II

DEVELOPMENT OF LOAN PRODUCT MANUAL

Loan Products

The core part of this consultancy was used to develop, in close collaboration with the Kayonza Microfinance SACCO's management, a loan product to service the tea farmers. During the initial meetings with both the SACCO's and KGTF's management it became evident that one single input loan product would not be sufficient to meet the needs of both the medium and large tea farmers, as well as the smaller growers. In light of this, it was decided to develop two (2) basic tea improvement loan products, which the SACCO could then provide to its smallholder tea production tea producing members.

The first loan product is a “Tea Improvement Input Loan.” It is structured to conform to the business cycle of the tea farmers, with a five (5) month loan term, which includes a one-month grace period for interest and a two month grace period for principal. Each tea farmer would receive two successive input loans each year. The first would cover the period from (approximately) February 15th to July 15th and the second would cover the period from July 16th through December 15th.

The input loan product is designed to require principal payments only once the full effect of the inputs is seen in the green leaf tea production. Thus the first installment, for interest only, occurs two months after the inputs have been received and approximately one month after the arrival of rains and subsequent application of fertilizer. This first installment covers two months of interest and thus all ensure good income flows for the SACCO, as well. The second through fourth installments are comprised of both principal and interest payments. While the basis input loan product is outlined in Table 1, real-case hypothetical loans are further presented in the “Tea Improvement Loan Product Manual,” which makes up Appendix A of this report.

Table 1 Tea Improvement Input Loan Specifications

Loan Amount:	The loan amount is based on quantity of fertilizer and herbicide specified by the Tea Factory and the average monthly (historic) income. The actual value depends on the current cost of both fertilizer and herbicide.
Loan Term:	Five (5) months The approximate loan period is 15 February – 15 July for the 1 st season and 15 July – 15 December for the 2 nd season.
Loan Fee:	Two (2) percent flat fee based on the loan principal disbursed. The loan fee must be paid upfront before delivery of the inputs. It is not deducted from the loan principal since the loan is disbursed in-kind and not in cash. It is not paid when the loan is pre-approved. It can be paid as soon as the cost of the inputs is determined during the procurement process. It can be paid through an authorization for automatic deduction from the green leaf payments to the members SACCO account.
Interest Method:	Declining balance
Interest Rate:	36% per annum or 3% per month

Grace Period:	One (1) month for interest Two (2) months for principal
Installment Frequency:	Monthly
Number of Installments:	Four (4) The first installment is an interest only payment. The interest is calculated from the day of disbursement and includes the one month grace period; i.e. 2 months of interest. The second (2 nd) through fourth (4 th) installments include interest and principal amounts. The principal is divided into three equal payments and the interest is calculated on the outstanding balance.
Collateral/Guarantee Requirement:	Direct deposit of all green leaf payments from the Kayonza Growers Tea Factory. Shares and Pledged Savings Account
Additional Requirements:	Monthly savings deposits, by automatic deductions, in a Pledged Savings Account based on a negotiated amount and period.

In addition to the basic input loan product, those tea farmers that can demonstrate the greatest production capacity along with an ability to use a labor loan product to increase the overall quality green leaf production will be allowed to apply for an additional “Tea Improvement Labor Loan.” This loan product is similar to a fixed line of credit; i.e., the maximum monthly labor amount is set at the beginning of the loan and it is renewed at the beginning of each month during the entire loan term, provided the previous amount has already been reimbursed. The loan term will vary from one to twelve months with a recommendation that it generally cover the ten month period for the 1st and 2nd season input loan cycles.

In order to qualify for the additional tea improvement labor loan product a tea grower must clearly demonstrate that he/she has sufficient month-by-month income to justify the amount and frequency required for labor payments. KGTF must further agree that the individual tea grower has previously demonstrated sufficient production capacity to justify the use of this loan product. Table 2 provides the detailed specifications of this product.

Table 2 Tea Production Labor Loan Product Specifications

Loan Amount:	The loan amount is based on the estimated monthly amount needed for labor. The actual amount depends on the size of the tea garden (total productive area) and the historic amount of green leaf produced. The amount is the same for each month. The loan principal will be automatically deposited into the members SACCO account.
Loan Term:	One (1) month, renewable up to Twelve (12) months
Loan Fee:	Two (2) percent flat fee based on first month’s loan principal. The loan fee is deducted from the loan principal before the first month’s principal disbursement, since the loan is disbursed in cash. No additional fees are required during the entire loan term.
Interest Method:	Declining balance
Interest Rate:	36% per annum or 3% per month
Grace Period:	None
Installment Frequency:	Monthly
Number of Installments:	One (1) to Twelve (12) The monthly installment covers the entire monthly principal and interest amount; i.e., each monthly amount is fully repaid in one installment.
Collateral/Guarantee Requirement:	Direct deposit of all green leaf payments from the Kayonza Growers Tea Factory.

Additional Requirements:	Member must already have a Tea Improvement Input loan
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In order to qualify for either the tea improvement input loan product or the input and labor loan products, the tea farmers must:

1. Be a registered tea farmer with the KGTF;
2. Meet the minimum production and/or tea garden size requirements set by KGTF;
3. Sign a written statement listing all tea gardens that are owned or managed;
4. Instruct KGTF to directly deposit payments directly into their SACCO account;
5. Not be in arrears or have defaulted on any previous loans from KGTF;
6. Be or become a member of the Kayonza Microfinance SACCO, Ltd.;
7. Not be in arrears or have defaulted on any previous SACCO loans;
8. Meet the minimum share and savings requirements for loan amount requested;
9. Open up a compulsory savings account linked to the tea improvement input loan;
10. Agree to make monthly compulsory savings deposits on a predetermined amount a minimum of 24 months; and
11. Fulfill additional requirements of the SACCO or KGTF for quality tea production.

It was suggested to the SACCO board that they make an initial exception to allow new members seven months (until July 31, 2007) to comply with all of the financial requirements for joining the SACCO. This would allow the tea farmers to apply for and receive tea improvement loans for the 1st growing season of 2007, even if they had not completed all the financial obligations. They would; however, still have had to fully comply with all of the above eleven conditions to receive the 2nd season loan(s) or at least be judged as having made a sufficient effort for a compliance extension to be granted on a case by case basis.

Loan Recovery Procedures

The loan recovery procedures for both the “Tea Improvement Input Loan” and the “Tea Improvement Labor Loan” products are exactly the same. All tea growers must sign a notarized statement instructing KGTF to deposit all payment (advances, monthly payments, incentive payments, and dividends) directly into their SACCO account. The loan repayments will then be automatically deducted from the members’ SACCO accounts.

Compulsory Savings Product

In order to replace the initial external Input Revolving Fund, each tea grower must agree (condition 9 under the Loan product section) to open a “Pledged Savings Account” in addition to the ordinary savings account. This compulsory savings or fixed term account is expected to build up the SACCO’s internal (capital) funding capacity to provide input and labor loans and therefore replace the initial input revolving fund. It is estimated that this process will be completed within a 24-month period.

The pledge agreement covers a period of 24 months at a fixed monthly savings amount. It can be modified in the future to deduct a larger amount if the client decides to increase the input quantities needed for his/her tea garden(s) in the future. The amount may not be reduced

without prior authorization of the SACCO and an understanding that it will affect the future amount available for input loans.

No withdrawals can be made from this account unless the tea grower has completely repaid all of his/her loan installments and leaves the SACCO. After the initial 24-month period, the member will renew the pledged savings account based on the then applicable terms and conditions. He/she can continue to saving for an unlimited number of additional months. The SACCO will pay a fixed interest rate on the pledged savings account

Loan Appraisal

All tea growers who meet the eleven basic conditions mentioned above can qualify for the Tea Improvement Input Loans. Qualified tea growers can receive a concurrent tea improvement labor loan, if their production income and technical proficiency meets the approval of both KGTF and the SACCO.

Each year in October, KGTF management will provide the SACCO with an estimated or expected cost for fertilizer and herbicide for the next year's two growing season. These values will be used to estimate the amount required for each growing season's loan for pre-approval; however, the actual amount of the loan will only be determined once the inputs have been purchased. The loan will be credit scored based on the following information (a detailed explanation of each can be found in Appendix A):

- UTGC number
- Name
- Area under tea cultivation
- Total Fertilizer Required and Fertilizer Required Per Growing Season
- Total Herbicide Required and Herbicide Required Per Growing Season
- 36 Months of Green Leaf Production Data
- Estimated Monthly Labor Requirement or Estimated Green Leaf Advance
- Net Available Monthly Income

Based on the monthly net available income, the SACCO loan officer and loans committee will be able to determine the tea grower's capacity to repay the loan installments. The general rule is that:

- ▶ If the amount of each monthly loan installment is 50% or less than the average expected monthly income amount then this tea grower is extremely likely to repay all installments on time. These tea farmers can be considered for the concurrent Tea Improvement Labor loan product.
- ▶ If the amount of each monthly loan installment is between 51% and 75% of the average expected monthly income amount then this tea grower should be able to repay all installments on time; however, more information on the borrower's character should be considered before approving the loan. These tea farmers are unlikely to qualify for the concurrent labor loan.

- ▶ If the amount of each monthly loan installment is greater 75% of the average expected monthly income amount then this tea grower is unlikely to be able to repay all installments on time since he/she will have no other income for other household expenses or addition tea production costs. Other collateral may be required before this loan can be approved. The tea farmers will not qualify for the additional labor loan.

The most critical issue for using a standard credit scoring method to approve tea growers for loans is the availability of the data in a timely manner and standard format from KGTF. Currently, this is not a reality. While the data is available it took the KGTF staff almost 5 hours to compile the information and then almost two hours for this consultant to extract the information for only ten growers.

It is therefore critical that USAID/Rural SPEED assist KGTF to develop a short program (sub-routine) that can extract the requested data on any number of tea growers simply by selecting that reporting option. KGTF currently use an in-house program using FoxPro as the program language. It should therefore not be very difficult to write an appropriate program. The consultant who has developed the latest version of the SACCO Performance Management Tool would be the ideal candidate to create the necessary program. KGTF is very open and willing to have this reporting option added to their database system.

Ideally, USAID/Rural SPEED should organize with KGTF to have a copy of their database brought up to Kampala to efficiently use the IT consultants time. Once the report program is completed it might require that the consultant physically install it at KGTF; however, that will depend on KGTF's internal IT staff member's level of capacity. This is something that should be done before the end of December 2006 so that all input and/or labor loans can be approved by late January or early February before the delivery of inputs.

Input Revolving Fund

Given that the Kayonza Microfinance SACCO, Ltd. has neither the current resources (savings, shares, retained earnings, etc) nor sufficient membership to be able to quickly supply all of the qualified tea farmers with the proper amount of input credit, an initial revolving fund must be solicited from donors for a two-year period. The estimated value needed for this revolving fund is US\$ 200,000. The SACCO members then need twenty-four months to mobilize compulsory savings to repay the revolving fund to the donors.

The revolving fund provides the SACCO immediately with the resources it needs to purchase, in advance of each growing season, the appropriate quantity of quality fertilizer and herbicide for all of the tea farmers that qualify under the KGTF's requirements.

While the day-to-day management of the input revolving fund will be handled by the SACCO, it will require input and support from KGTF for input procurement disbursements. The revolving fund will be held in a separate bank account at the Stanbic Bank branch in Kahihi. Disbursements will only occur after joint written approval from the SACCO and KGTF management. This is done to ensure that only factory approved fertilizer and herbicide deliveries are paid for using the input revolving fund. KGTF is responsible for guaranteeing the quality and quantity of the delivered inputs (minimum quality standards).

Tea farmers will be pre-qualified for the following year's two growing seasons by October/November of each year. This will allow KGTF to procure the appropriate quantity and quality of fertilizer and herbicide for the next year's growing seasons.

While the SACCO will manage the fund, KGTF will manage and store the inputs. This is important because the SACCO has neither the warehouse space nor the technical capacity to supervise the reception, storage and distribution to tea farmers of the fertilizer and herbicide.

While the revolving fund is expected to meet the input demand for 2007, it is not yet available. This is an issue because inputs must be ordered in December (down payment paid at the signing of the delivery contract) to ensure delivery in January and February for next year's 1st growing season. This is unlikely to occur in time. It is therefore advisable that KGTF prepares to purchase the input one last time before the revolving fund becomes functional.

If the funds then become available before the inputs are delivered to KGTF or at least before they are distributed to the tea growers, the revolving fund will directly reimburse KGTF and grant the input loans to the qualified tea growers. If not, then an agreement/understanding will be necessary between the SACCO and KGTF as to whether the loans will start during the 2nd growing season or if they will be transferred to the SACCO during the 1st season.

No matter what, it is essential that a detailed Memorandum of Understanding be developed outlines all of KGTF's responsibilities and those of the SACCO. It would be wise to include an approval section that includes all of the additional (external) partners; such as Imani, USAID/Rural SPEED, Danida's ASPS, and the donor or donors who provide the initial input revolving fund. USAID/Rural SPEED is ideally placed to facilitate the MoU development process.

Loan Product Promotion

Given that the Mango Tree consultant was working on the development of a simple yet effective range of promotional products, no separate development of loan product promotional tools were done by this consultant. It should be pointed out; however, that simply having the appropriate promotional kit is not sufficient. Neither the SACCO nor KGTF staff currently has the adult education skills to effectively use the promotional tools being developed by "Mango Tree."

It is therefore necessary to devise a cost effective method to reach the tea growers. I would therefore suggest that the SACCO and KGTF adopt a similar methodology to that is used by "Mukwano" for sunflower growers; i.e., a system of lead tea farmers who are appropriately trained and supervised. The lead tea farmers would then train and supervise approximately 20 tea growers each. The tea growers should be allowed to select their own lead farmers given that they know better than anyone from the outside who are the better tea farmers in their collection areas. This process would instill confidence in all of the partners (tea growers, KGTF and SACCO) and ensure that those trained can and will pass on the knowledge and skills to the other tea growers.

One would therefore need approximately 200 lead farmers to provide support to the almost 4,000 tea growers. This system will be much more manageable than having the SACCO and

KGTF try to provide systematic and continuous information and support individually to the almost 4,000 tea growers. It is not clear at this stage, who will be in charge of this activity, although it appears to fit well within KGTF's normal activities. KGTF leaf officers (extension agents) are would have to be trained and there current number is not sufficient to rapidly transfer knowledge and skills to the 200 or so lead farmers. There number is sufficient to provide the continued support once the initial sensitization and promotion is completed.

SECTION III

CONCLUSIONS AND RECOMMENDATIONS

"This exercise has permitted the consultant, in close association with the SACCO management to define two tea specific loan products; one for fertilizer and herbicides and the second for labor. These products will meet the basic needs of all tea growers that currently receive inputs by KGTF. It will be; however, a challenge to both the SACCO and KGTF to rapidly and effectively roll out the product.

It is therefore recommended that:

- 1. USAID/Rural SPEED work as quickly identify the appropriate donor and secure the input revolving fund.

This is the most critical issue outstanding.

- 2. A detailed MoU must be developed between the SACCO and KGTF.

This should be facilitated by Getachew M. Tache to ensure that all of SACCO and KGTF concerns are addressed and that each is clear on their respective roles and responsibilities.

- 3. The computer system needs to be upgraded at the Kayonza MF SACCO office and MicroBanker for Windows installed.

This would include the both the initial set up and operational training for the new software; i.e., loan product definition, etc.

- 4. USAID/Rural SPEED should assist KGTF to develop a short reporting program (sub-routine) that can extract the required data on growers from their current data base program.

This should be done to ensure that the SACCO can use the recommended standard credit scoring method to approve tea growers for loans data must be available in a timely manner and standard format from KGTF.

The consultant who has developed the latest version of the SACCO Performance Management Tool would be the ideal candidate to create the necessary program.

- 5. The promotion tools being developed by “Mango Tree” need to be finalized and duplicated so that an effective promotional campaign can be initiated.
- 6. A promotion strategy needs to be developed and implemented to quickly and effectively role out the tea improvement loans and compulsory savings products.

The strategy will include the roles and responsibilities of all the partners and not just the SACCO and KGTF.

- 7. USAID/Rural SPEED should assist the SACCO Board and Management to modify, approve and internalize the draft Tea Improvement Loan Product Manual.

APPENDICES

APPENDIX A **Kayonza Microfinance Sacco Ltd. Tea Improvement Loan Product Manual**

1. INTRODUCTION

USAID/Rural SPEED was initially requested by the Kayonza Growers Tea Factory, through Imani Development (East Africa), Ltd., to explore possible alternatives for the provision of input credit for fertilizer, herbicide and possibly labor to Kayonza tea farmers, in both the quantities that required to produce green leaf tea at optimal levels and a timely manner. This request followed a decision by the Kayonza Growers Tea Factory Management to eliminate the provision of inputs on a subsidized basis and their financial obligations in directly lending to the tea farmers. The Tea Factory management determined that they needed to focus exclusively on their core tea processing activities and thus withdraw from input finance.

In response to this request, USAID/Rural SPEED conducted both a value chain mapping of all key transactions from input supply to the terminal market for Kayonza's tea and a study to determine whether or not a SACCO system could be developed to provide the necessary input credits to Kayonza tea farmers. The first exercise established that the tea farmers are cash flow positive throughout the various phases of their production cycle and demonstrated that the factory provision of subsidized inputs was not a binding constraint to meeting input supply requirements. The fact that the tea farmers are cash flow positive firmly establishes that they are capable of accessing and repaying unsubsidized input loans. The second exercise established that a SACCO system could supply, in a timely manner, input credit to the tea farmers that are recognized as producers of sufficient annual green leaf by the Tea Factory to justify the provision of inputs on credit.

The results of the above studies were used to create a Tea Improvement Loan product for the Kayonza Microfinance SACCO, Ltd. The tea improvement loan will cover timely disbursement of inputs (fertilizer, herbicide and in some cases labor costs) for tea farmers adopting best plucking practices. It uses the tea factory's database to credit score potential borrowers on the basis of historic input use and productivity. The loan is disbursed in kind for the fertilizer and herbicide components. Loan installments are deducted directly from green leaf payments to farmers deposited directly to the SACCO by the Tea Factory.

The loan product is designed to conform to the tea production cycle, with repayments scheduled in respect to the actual production and payment cycles, while still covering management costs and mitigating default risks. The loan product includes a compulsory savings component, which will enable the SACCO to replace the initial revolving fund with savings liabilities to cater for future input credit. The more the tea farmers save, the more credit will be available and the quicker the initial revolving fund will be repaid. This new loan product will be described in detail in the rest of this manual.

2. INPUT REVOLVING FUND

Given that the Kayonza Microfinance SACCO, Ltd. has neither the current resources (savings, shares, retained earnings, etc) nor sufficient membership to be able to quickly supply all of the qualified tea farmers with the proper amount of input credit, an initial revolving fund has been solicited from donors for a two-year period. The value of this revolving fund will be a maximum of US\$ 200,000¹. By the end of the two-year period it is expected that the tea farmers will have saved an equivalent or greater value in member compulsory savings accounts to repay the initial fund to the donors and continue to lend to all qualified tea farmers.

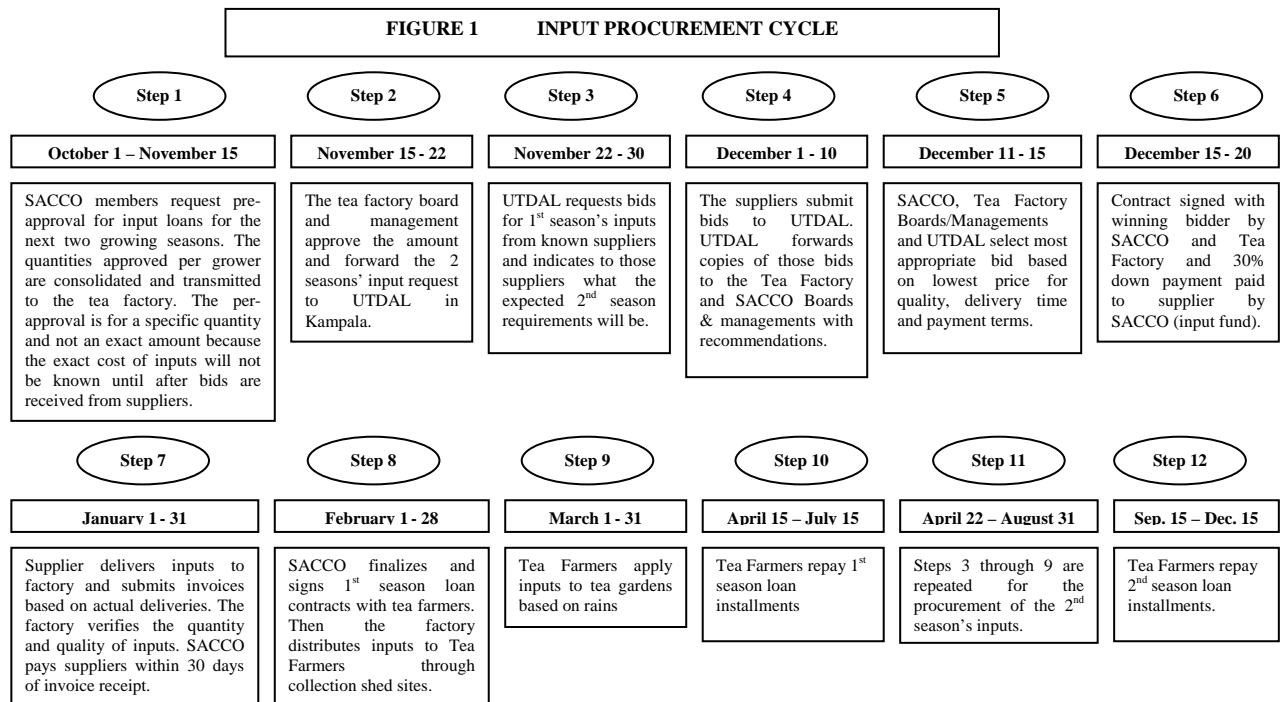
The purpose of the revolving fund is to provide the SACCO with the resources it needs to purchase, in advance of each growing season, the appropriate quantity of quality fertilizer and herbicide for all of the tea farmers that qualify under the Tea Factory's historic production requirements for the next growing season. This implies a strong linkage between the SACCO and the Tea Factory, especially in the sharing of production and repayment data.

While the day-to-day management of the input revolving fund will be handled by the SACCO, it will require input and support from the Tea Factory for input procurement disbursements. The input revolving fund will be held in a separate bank account at the Stanbic Bank branch in Kahihi. Disbursements will only occur after joint written approval from the SACCO and the Tea factory management. This is done to ensure that only factory approved fertilizer and herbicide deliveries are paid for using the input revolving fund. In addition, the Tea Factory is responsible for guaranteeing that all of the delivered inputs meet or exceed the minimum quality specifications for optimal tea production.

Tea farmers will be pre-qualified for the following year's two growing seasons by October/November of each year. This will allow the Tea Factory to procure the appropriate quantity and quality of fertilizer and herbicide for the next year's growing seasons.

While the SACCO will manage the fund, the Tea Factory will manage and store the inputs. This is important because the SACCO has neither the warehouse space nor the technical capacity to supervise the reception, storage and distribution to tea farmers of the fertilizer and herbicide. Figure 1 illustrates the steps required for the loan approval and input procurement processes.

¹ This still needs to be determined by USAID/Rural SPEED.



The input revolving fund is replenished by repayment of the principal part of each loan installment; i.e., the installment is divided into principal and interest components. When the factory transfers the tea farmers' green leaf payments, the principal and interest components are automatically deducted from the total amount of the transfer, with the remaining amount being automatically transferred to the members/clients SACCO account.

Once the loan installments have been deducted from green leaf payments, then principal portions are then transferred to the Stanbic bank input revolving fund account. The interest portions remain in the SACCO's income account.

It is important that the revolving fund money is not used for any other purpose except input purchases. This is done to ensure that the full amount of funds needed for the next growing season is available on time.

The SACCO board and Supervisory Committee must therefore monitor that the transfer of loan principal from the SACCO's general operations bank account to the specific input revolving fund account is done correctly and in a timely manner, based on the repayment (installment) schedules.

The SACCO management will prepare a monthly report, which will be submitted to the SACCO Board and the Tea Factory Board, covering input revolving fund disbursements (input purchases), loan reimbursements (loan payments to the SACCO) and transfer to the consolidated principal payments to the specific input revolving fund account.

A Memorandum of Understanding (MoU) must be developed between the SACCO and the KGTF detailing all of the steps in the input revolving fund agreement, especially with respect to the collection of the input demand (through loan requests), the reception and storage of the inputs by KGTF, and the distribution of the inputs by KGTF to the individual tea farmers. This MoU will be signed by the SACCO and KGTF boards and managements.

3. LOAN PRODUCT

The “Tea Improvement Input Loan” is structured to best conform to the business cycle of the tea farmers. The loan term is five (5) months, which includes a one-month grace period, an interest only first installment and three principal and interest installments. The product is available to all tea growers who meet the minimum requirements. Table 1 shows the detailed information on the basis input loan product.

A “Tea Improvement Labor Loan” product will also be available for specific tea farmers; i.e., the larger tea farmers and those that demonstrate the greatest production capacity along with an ability to use the labor loan product to increase the overall quality green leaf production from their current tea gardens. This product will not be available to all tea growers.

Table 1 Tea Improvement Input Loan Specifications

Loan Amount:	The loan amount is based on quantity of fertilizer and herbicide specified by the Tea Factory and the average monthly (historic) income. The actual value depends on the current cost of both fertilizer and herbicide.
Loan Term:	Five (5) months The approximate loan period is 15 February – 15 July for the 1 st season and 15 July – 15 December for the 2 nd season.
Loan Fee:	Two (2) percent flat fee based on the loan principal disbursed. The loan fee must be paid upfront before delivery of the inputs. It is not deducted from the loan principal since the loan is disbursed in-kind and not in cash. It is not paid when the loan is pre-approved. It can be paid as soon as the cost of the inputs is determined during the procurement process. It can be paid through an authorization for automatic deduction from the green leaf payments to the members SACCO account.
Interest Method:	Declining balance
Interest Rate:	36% per annum or 3% per month
Grace Period:	One (1) month for interest Two (2) months for principal
Installment Frequency:	Monthly
Number of Installments:	Four (4) The first installment is an interest only payment. The interest is calculated from the day of disbursement and includes the one month grace period; i.e. 2 months of interest. The second (2 nd) through fourth (4 th) installments include interest and principal amounts. The principal is divided into three equal payments and the interest is calculated on the outstanding balance.
Collateral/Guarantee Requirement:	Direct deposit of all green leaf payments from the Kayonza Growers Tea Factory. Shares and Pledged Savings Account
Additional Requirements:	Monthly savings deposits, by automatic deductions, in a Pledged Savings Account based on a negotiated amount and period.

Two (2) examples of sample five-month tea improvement input loans are shown in Appendix A and B for, 2.50 hectares (6.15 acres) and 0.50 hectares (1.25 acres) respectively. The production data related to these two sample loans is shown in Appendixes F and G, respectively.

The monthly installment dates will be set to coincide with the normal monthly green leaf payment dates made by the tea factory to the tea farmers SACCO account. This will affect the actual number of days for interest calculations. No penalty will be assessed to the tea farmer for delayed loan payments caused by late payments from the tea factory.

In order to qualify for the tea improvement input loan product, the tea farmers must:

1. Be a registered tea farmer with the Kayonza Growers Tea Factory;
2. Meet the minimum production and/or tea garden size requirements set by the Kayonza Growers Tea Factory for input supply;
3. Sign a written statement listing all tea gardens that are owned or managed by the individual and giving the SACCO permission to seize all green leaf payments from these tea gardens to repay any delinquent installments. A sample format is shown in Appendix C
 - If the tea gardens listed on this statement have different names in the Kayonza Growers Tea Factory database than that of the individual, then he/she must provide written authorization of the listed owners that he/she is in fact in charge of all of those tea gardens. A sample format is shown in Appendix D.
 - If the tea farmer has hired one or more gardens on the list, then he/she must provide a copy of the lease agreement. A sample format is shown in Appendix E.
 - All of the above statements or hiring agreements must be notarized by the LC 1 and registered at that level.
4. Instruct the Kayonza Growers Tea Factory to directly deposit all future green leaf payments directly into their SACCO account. This includes advances, monthly payments, incentive payments, and dividends².
5. Not be in arrears or have defaulted on any previous loans supplied by the Kayonza Growers Tea Factory;
6. Be a member³ of the Kayonza Microfinance SACCO, Ltd.;
7. Not be in arrears or have defaulted on any previous loans from the SACCO;
8. Meet the minimum share and savings requirements for the amount of loan that will be requested;

² One needs to verify that this list covers all possible payments from the tea factory to the tea farmers.

³ This includes the payment of the joining fee, stationery fee, the purchase of one share, and the minimum savings amount to become a member. These amounts are set by the SACCO and may change over time. The exact amounts are communicated to all prospective members at the SACCO office.

9. Open up a compulsory savings account⁴ (Pledged Savings Account) directly linked to the tea improvement input loan;
10. Agree to make monthly compulsory savings deposits to the Pledged Savings Account, based on a predetermined amount and until the account reaches or exceeds the value of the input loan. It is expected that this process will take approximately 24 months; and
11. Fulfill any additional requirements that may be put in place by either the SACCO or the Kayonza Growers Tea Factory to ensure quality tea production.

Given that the time needed to fulfill conditions 4 and 5 take longer than the time currently available before the beginning of the 1st growing season in 2007 (February/March 2007), the SACCO is willing to grant a one time exception to new members and any current tea farmer members that do not meet the joining, share capital or savings requirements.

This one time exception will allow these members to pay, by monthly installments, through the end of July 2007, the minimum amounts required. Tea farmers that have not completed their membership fees, share capital purchases and minimum savings by 31 July 2007 will not receive any additional input loans until the required minimums are reached or exceeded.

The one time exception will be granted in writing and signed by the SACCO and the tea farmers, with a detailed schedule of deductions from monthly green leaf payments to meet these obligations.

Any tea farmers who do not opt to take advantage of this one time exception and join later must fulfill all SACCO membership and loan requirement in advance before they will be granted tea improvement input loans or any other SACCO loan services.

Tea farmers that are found to have used the fertilizer or herbicides received under the Tea Improvement Input loans for tea gardens other than those declared under condition 3, or who have sold the inputs to other tea farmers **suspended for at least 6 months from future tea improvement input loans.**

Repeat offenders will be excluded from future tea input loans. Use of the fertilizer on additional non-declared tea gardens will decrease the expected yield increases calculated from using the correct (optimal) fertilizer quantities on each tea garden.

For those tea farmers that demonstrate the greatest production capacity along with an ability to use the labor loan product to increase the overall quality green leaf production from their current tea gardens will be allowed to apply for an additional Tea Improvement Labor loan. This loan is similar to a fixed line of credit; i.e., the maximum monthly labor amount is set at the beginning of the loan and is renewed each month during the entire loan term. The loan term varies from one to twelve months with a recommendation that it cover the ten month period for the 1st and 2nd season input loan cycles.

⁴ The compulsory saving account will be an interest bearing account.

In order to qualify for the additional tea improvement labor loan product a tea grower must clearly demonstrate that they have sufficient month-by-month income to justify the amount and frequency required for labor payments. The Kayonza Growers Tea Factory must agree that the individual tea grower has previously demonstrated sufficient production to justify the use of this loan product. Table 2 provides the detailed specification for this loan product.

Table 2 Tea Production Labor Loan Product Specifications

Loan Amount:	The loan amount is based on the estimated monthly amount needed for labor. The actual amount depends on the size of the tea garden (total productive area) and the historic amount of green leaf produced. The amount is the same for each month. The loan principal will be automatically deposited into the members SACCO account.
Loan Term:	One (1) month, renewable up to Twelve (12) months
Loan Fee:	Two (2) percent flat fee based on first month's loan principal. The loan fee is deducted from the loan principal before the first month's principal disbursement, since the loan is disbursed in cash. No additional fees are required during the entire loan term.
Interest Method:	Declining balance
Interest Rate:	36% per annum or 3% per month
Grace Period:	None
Installment Frequency:	Monthly
Number of Installments:	One (1) to Twelve (12) The monthly installment covers the entire monthly principal and interest amount; i.e., each monthly amount is fully repaid in one installment.
Collateral/Guarantee Requirement:	Direct deposit of all green leaf payments from the Kayonza Growers Tea Factory.
Additional Requirements:	Member must already have a Tea Improvement Input loan

The monthly principal amount disbursed is the same amount for every month during the agreed loan term; however, the tea farmer can request a smaller amount for months when he/she does not need as much labor money due to drought or dry season effects on the green leaf production.

If a tea farmer is found to have used the labor loan money for other purposes outside of his/her tea production business then all future labor loan disbursements will be **suspended for at least 6 months** and that member will have to **pay a two (2) percent loan fee for each month's principal disbursement** for any future labor loans granted by the SACCO.

4. LOAN APPRAISAL

Tea Improvement Loans will be granted to all tea growers who meet the eleven (11) basic conditions listed in the “Loan Products” section of this manual. In addition, specifically qualified tea growers may receive a concurrent tea improvement labor loan, if their production income and technical proficiency meets the approval of both the Kayonza Growers Tea Factory management and the SACCO management.

In October of each year the Kayonza Growers Tea Factory management will provide the SACCO with an estimated or expected cost for fertilizer and herbicide for the next year’s two growing season. These values will be used to estimate the amount required for each growing season’s loan for pre-approval; however, the actual amount of the loan will only be determined once the inputs have been purchased.

Both the Tea Improvement Input loans and the Tea Improvement Labor loans are analyzed with respect to the following information:

- **UTGC number**

This is the number that is given to each tea farmer producing green leaf for the Kayonza Growers Tea Factory.

If the tea farmer has multiple tea gardens then he/she must provide the UTGC numbers for each of those gardens, even if they are leased. Loans will only be approved for the specified tea garden acreage.

Spot controls will be conducted by both the Kayonza Growers Tea Factory staff and the SACCO loan officers to verify that the tea farmers are using all of the inputs or labor funds correctly and in the specified tea gardens.

- **Name**

This is the name of the SACCO member. If the names listed for the UTGC numbers are not the same as the name on the member account then the member will need a signed and notarized (LC 1) statement from the listed individuals, businesses or groups that the SACCO member is authorized to receive all of the green leaf income from those tea gardens and contract input and labor loans for those gardens.

- **Area**

This is the total number of acres or hectares covered by the tea garden or gardens.

- **Total Fertilizer Required and Fertilizer Required Per Growing Season**

This is the number of 50Kg bags of NPK fertilizer that have been approved under the Kayonza Growers Tea Factory’s input entitlement list. The number of bags per growing season will determine the actual amount for fertilizer for each of the two growing seasons’ loans. The total required is the sum of the number needed for each growing season.

- **Total Herbicide Required and Herbicide Required Per Growing Season**

This is the number of liters of herbicide⁵ that have been approved under the Kayonza Growers Tea Factory's input entitlement list. The number of liters required per growing season will determine the actual amount for herbicide for each of the two growing seasons' loans. The total required is the sum of the quantities needed for each growing season.

- **36 Months of Green Leaf Production Data**

This is the historic green leaf production data per UTGC number over the last thirty-six (36) months. This information provides the SACCO with three data points for each calendar month.

This data is then used to produce an average monthly production figure for each month of the year. Using three years of data ensures that the effect of any non-cyclic variation is neither underestimated nor overestimated.

The average production figure is then used to calculate the average income amount for each month, using the current green leaf price per kilogram. Future (expected but unknown) increases in green leaf price are not considered. It is always prudent to use the current price since the increase in price per kilogram will only increase income and make the loan more viable.

In addition, the lowest monthly production amount is also considered because it indicates the downside risk if there is drought, a lack of application of the proper inputs or of last application, and poor management during the loan cycle.

Please note that this data must come from the KGTF. While it is currently available, it is not easily accessible or compiled for individual tea farmers. This will require a sub-routine or program to be written to extract and print out the information in a useable format⁶ from the KGTF FoxPro language Green Leaf Tea database.

- **Estimated Monthly Labor Requirement or Estimated Green Leaf Advance**

The best proxy for monthly labor requirement is the amount of green advance paid to the tea farmers each month. The formula is based on 30% of the value of the green leaf production between the first and the fifteen of each month at a lower value (currently UgS 170/kg) than the final price paid to the tea farmers. It should, therefore, provide a fairly good estimate of labor inputs. Unfortunately, the month-by-month value of advances paid to tea farmers is not available at the tea factory level. Advances are cleared out as soon as a grower is paid after the end of the month (proper accounting principles) and thus unavailable at this time⁷.

⁵ In the future, the Kayonza Growers Tea Factory management may change the brand and type of herbicide to be used based on changes needed to achieve the optimal level of weed control.

⁶ The suggested format is used in Appendixes F and G.

⁷ It would be helpful if a report sub-routine (program) could be written to calculate the value for each tea growers for the last 12 months but it is not clear if this is possible at this time and certainly will not occur without outside assistance.

- **Net Available Monthly Income**

The net available income is the difference between average monthly income and the estimated monthly labor requirement. It is this monthly amount that will be compared to the monthly loan installments to see if an individual tea grower can support the actual installments and still have income left for other tea or non tea related activities.

Two examples of completed reports containing tea grower's production and input information for 2.5 ha (6.25 acres) and 0.5 ha (1.25 acres) respectively are shown in Appendixes F and G.

Based on the monthly net available income, the SACCO loan officer and loans committee will be able to determine the capacity of the tea grower to repay, on time, each of the expected loan installments.

- ▶ If the amount of each monthly loan installment is 50% or less than the average expected monthly income amount then this tea grower is extremely likely to repay all installments on time. These are the tea farmers that can be considered for the concurrent Tea Improvement Labor loan product.
- ▶ If the amount of each monthly loan installment is between 51% and 75% of the average expected monthly income amount then this tea grower should be able to repay all installments on time; however, more information on the borrower's character should be considered before approving the loan.
- ▶ If the amount of each monthly loan installment is greater 75% of the average expected monthly income amount then this tea grower is unlikely to be able to repay all installments on time since he/she will have no other income for other household expenses or addition tea production costs.

However, the SACCO should still follow the 5 Cs (Character, Capacity, Collateral, Conditions, and Capital) before approving any tea production loan, the same as it would for any other type of SACCO loan product.

5. LOAN RECOVERY PROCEDURES

The loan recovery procedures for both the “Tea Improvement Input Loan” and the “Tea Improvement Labor Loan” products are exactly the same. All tea growers must sign a notarized statement that they instruct the Kayonza Growers Tea Factory to deposit all payment (advances, monthly payments, incentive payments, and dividends) directly into the tea grower’s SACCO account (Appendix H). A copy of this authorization is filed at the SACCO office and at the Kayonza Growers Tea Factory.

Unless there is an additional labor loan, the Kayonza Growers Tea Factory will make two monthly deposits to the tea growers SACCO account. The first payment will be the advance, which the grower is free to withdraw (minus the UgS 1,000 handling fee) to pay for labor during the month. The second payment made by the tea factory represents outstanding value of all green leaf delivered to the tea factory during the month. It is this payment that is used to cover the loan installments per the loan contract.

Once the money is deposited into the SACCO’s bank account, the SACCO accountant will enter the payment data into the member accounts. Then the instruction is given so that the loan payment is automatically deducted from the payment. Anything amount remaining after deduction of the loan installment will remain in the member’s SACCO account.

If for any reason the green leaf production falls below the estimated amount and is now insufficient to fully repay the loan installment, the SACCO will follow the same procedures that are used for any other delinquent client and suspend any future input or labor loans until it is satisfied that the delinquency will not reoccur.

6. COMPULSORY LINKED SAVINGS PRODUCT

In order to replace the initial (temporary) external Input Revolving Fund, each tea grower must agree (condition 9 under the Loan product section) to open a “Pledged Savings Account” in addition to the ordinary savings account.

The objective of this compulsory savings account is to build up the SACCO’s internal funding capacity to provide input and labor loans to tea growers. It is also used to replace the initial external input revolving fund, which is expected to be repaid after a period of approximately 24 months. This 24-month period starts once the first “Tea Improvement Input” loans are granted in 2007.

As such, each tea grower SACCO members must open up a “Pledged Savings Account” before it can be pre-approved for any input loans. On the day that the pledged savings account is opened the tea grower must complete a pledge form (Appendix I) that authorizes the SACCO to automatically deduct the monthly savings amount from the member’s green leaf payment, after the loan payment has been deducted.

The pledge agreement covers a period of 24 months at a fixed amount but it can be modified in the future to deduct a larger amount if the client decides to increase the input quantities needed for his/her tea garden in the future. The amount may not be reduced without prior authorization of the SACCO and an understanding that it will affect the future amount available for input loans.

The pledged savings account is a fixed deposit account with a minimum term of 24 months. No withdrawals can be made from this account unless the tea grower has completely repaid all of his/her loan installments and leaves the SACCO. After the initial 24-month period, the member will have the option to renew the pledged savings account based on the then applicable terms and conditions.

The SACCO will pay interest on the pledged savings account at the prevailing rate on the day that the account is opened. The interest rate paid on the account may increase after the first 12-months based on the SACCOs profitability at that time, but it will not decrease.

Appendix A Sample Five Month Tea Improvement Input Loans – 1st and 2nd Season 2007 (2.5 ha.)

Please note that this is only a theoretical example and does not represent the actual cost or quantity of inputs required for a specific tea garden. Furthermore, it does not necessarily represent the current or future monthly SACCO loan interest rate.

Sample Input Loan for 2.5 Hectare of Tea Production

Inputs - 1st Season	Quantity	Unit Price	Total
Fertilizer (50 kg bag)	16	52,800	UgS 844,800
Herbicide (1 L container)	7	15,000	UgS 105,000
Total			UgS 949,800

Loan Terms:

Annual Interest Rate	36.00%
Period	5 months
Grace Period	1 month
No. Installments	4 1st installment interest only

Declining Balance	Date	Interest	Principal	Total
Disbursement	15-Feb			
1 st installment (59 days)	15-Apr	UgS 56,038	UgS -	UgS 56,038
2nd installment (30 days)	15-May	UgS 28,494	UgS 316,600	UgS 345,094
3 rd installment (31 days)	15-Jun	UgS 19,629	UgS 316,600	UgS 336,229
4 th installment (30 days)	15-Jul	UgS 9,498	UgS 316,600	UgS 326,098
Total		UgS 113,659	UgS 949,800	UgS 1,063,459

Inputs - 2nd Season	Quantity	Unit Price	Total
Fertilizer (50 kg bag)	16	52,800	UgS 844,800
Herbicide (1 L container)	6	15,000	UgS 90,000
Total			UgS 934,800

Loan Terms:

Annual Interest Rate	36.00%
Period	5 months
Grace Period	1 month
No. Installments	4 1st installment interest only

Declining Balance	Date	Interest	Principal	Total
Disbursement	15-Jul			
1st installment (62 days)	15-Sep	UgS 57,958	UgS -	UgS 57,958
2nd installment (30 days)	15-Oct	UgS 28,044	UgS 311,600	UgS 339,644
3rd installment (31 days)	15-Nov	UgS 19,319	UgS 311,600	UgS 330,919
4th installment (31 days)	15-Dec	UgS 9,660	UgS 311,600	UgS 321,260
Total		UgS 114,980	UgS 934,800	UgS 1,049,780

Appendix B Sample Five Month Tea Improvement Input Loans – 1st and 2nd Season 2007 (0.5 ha.)

Please note that this is only a theoretical example and does not represent the actual cost or quantity of inputs required for a specific tea garden. Furthermore, it does not necessarily represent the current or future monthly SACCO loan interest rate.

Sample Input Loan for 0.5 Hectare of Tea Production

Inputs - 1st Season	Quantity	Unit Price	Total
Fertilizer (50 kg bag)	5	52,800	UgS 264,000
Herbicide (1 L container)	2	15,000	UgS 30,000
Total			UgS 294,000

Loan Terms:

Annual Interest Rate	36.00%
Period	5 months
Grace Period	1 month
No. Installments	4 1st installment interest only

Declining Balance	Date	Interest	Principal	Total
Disbursement	15-Feb			
1st installment (59 days)	15-Apr	UgS 17,346	UgS -	UgS 17,346
2nd installment (30 days)	15-May	UgS 8,820	UgS 98,000	UgS 106,820
3rd installment (31 days)	15-Jun	UgS 6,076	UgS 98,000	UgS 104,076
4th installment (30 days)	15-Jul	UgS 2,940	UgS 98,000	UgS 100,940
Total		UgS 35,182	UgS 294,000	UgS 329,182

Inputs - 2nd Season	Quantity	Unit Price	Total
Fertilizer (50 kg bag)	8	52,800	UgS 422,400
Herbicide (1 L container)	3	15,000	UgS 45,000
Total			UgS 467,400

Loan Terms:

Annual Interest Rate	36.00%
Period	5 months
Grace Period	1 month
No. Installments	4 1st installment interest only

Declining Balance	Date	Interest	Principal	Total
Disbursement	15-Jul			
1st installment (62 days)	15-Sep	UgS 28,979	UgS -	UgS 28,979
2nd installment (30 days)	15-Oct	UgS 14,022	UgS 155,800	UgS 169,822
3rd installment (31 days)	15-Nov	UgS 9,660	UgS 155,800	UgS 165,460
4th installment (31 days)	15-Dec	UgS 4,830	UgS 155,800	UgS 160,630
Total		UgS 57,490	UgS 467,400	UgS 524,890

Appendix C Statement of Tea Gardens Proposed for Tea Improvement Loan

Request for Tea Improvement Input Loan

I, Mr./Mrs./Ms. _____, Kayonza MF SACCO, Ltd. member No. _____, hereby declare that I own and/or manage the following tea gardens:

UTGC # _____ located at _____
UTGC # _____ located at _____
UTGC # _____ located at _____
UTGC # _____ located at _____

As such, I would like to apply for a Tea Improvement Input loan to provide fertilizer and herbicides for these tea gardens for the 1st and 2nd seasons in _____ (year).

I therefore authorize the Kayonza MF SACCO to request information from the Kayonza Growers Tea Factory for each of these tea gardens.

Signed at _____ on _____
(Location) (Date)

Signed by: Mr./Mrs./Ms. _____ (Name) _____ (Signature)

Witness: Mr./Mrs./Ms. _____ (Name) _____ (Signature)

Certified by: Mr./Mrs./Ms. _____ (Name) LC I _____ (Position)

(Signature)

Appendix D Sample Format for Authorizing an Individual Tea Grower to Manage a Number of Tea Gardens

Authorization to Manage Tea Gardens

We the following owners of the below listed tea gardens:

Mr./Mrs./Ms. _____ UTGC # _____ located at _____.

Mr./Mrs./Ms. _____ UTGC # _____ located at _____.

Mr./Mrs./Ms. _____ UTGC # _____ located at _____.

Mr./Mrs./Ms. _____ UTGC # _____ located at _____.

Hereby declare that Mr./Mrs./Ms. _____ UTGC # _____ is authorized to manage my/our tea gardens for the period from _____ to _____.

As such, all of the payments for green leaf tea delivered to the Kayonza Growers Tea Factory should be paid to his/her account at the Kayonza MF SACCO, Ltd., number _____.

Signed at _____ on _____
(Location) (Date)

Signed by: Mr./Mrs./Ms. _____ (Name) _____ (Signature)

Mr./Mrs./Ms. _____ (Name) _____ (Signature)

Mr./Mrs./Ms. _____ (Name) _____ (Signature)

Mr./Mrs./Ms. _____ (Name) _____ (Signature)

Certified by: Mr./Mrs./Ms. _____ (Name) LC I _____ (Position)

(Signature)

Appendix E Sample Format for Hiring (Lease) Agreement for a Tea Garden

Tea Garden Hiring (Lease) Agreement

Article 1 This tea garden lease (hiring) agreement is made between the following people:

Mr./Mrs./Ms. _____, who is hiring (lessee) the tea garden(s) from Mr./Mrs./Ms. _____, who is hiring out (leaser) the tea garden (s).

Article 2 This lease agreement is for a period of _____ months, beginning on _____ and ending on _____.

Article 3 This lease agreement covers ____ tea garden(s) with the following Kayonza Growers Tea Factory number:

UTGC # _____ located at _____.
 UTGC # _____ located at _____.
 UTGC # _____ located at _____.

Article 4 Mr./Mrs./Ms. _____ (lessee) agrees to pay to Mr./Mrs./Ms. _____ (leaser) the amount of UgS _____ for the use of the tea garden. This amount will be paid as follows: _____

Article 5 Mr./Mrs./Ms. _____ (lessee) agrees to continue to practice proper tea growing practices, per the advice of the Kayonza Growers Tea Factory leaf officers, to ensure that the garden is properly managed and returned to the leaser in the same or better condition as at the beginning of this lease agreement.

Article 6 This lease agreement is agreed to on _____ day of _____ 2007 at _____.

Signed by: Mr./Mrs./Ms. _____ (lessee)

Mr./Mrs./Ms. _____ (lesser)

Witnesses: Mr./Mrs./Ms. _____ (Name) _____ (Signature)

Mr./Mrs./Ms. _____ (Name) _____ (Signature)

Certified by: Mr./Mrs./Ms. _____ LC I _____ (Name) (Position)

 (Signature)

Appendix F Sample Format of Production and Input Data Needed for Tea Improvement Loans (2.5 ha. or 6.25 acres)

KAYONZA GROWERS TEA FACTORY / KAYONZA MICROFINANCE SACCO LTD.

Estimated NPK Price/Bag	52800
Estimated Herbicide Price/L	15000
Current Green Leaf Price/Kg	200
Current Advance Price/Kg	170

UTGC #	Name	Area Ha.	Green Leaf Production													Sub-total		
			Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec			
311032		2.50																
			2003													3115	3690	6805
			2004	3197	1204	1666	3178	4230	2861	1579	2928	3195	5071	3254	3605	35968		
			2005	1944	906	1691	2256	2634	2746	3044	2918	4044	4464	3796	4514	34957		
1 st	Fertilizer - 50 Kg Bags of NPK	16	2006	2256	775	3630	3942	5369	5880	2876	3787	2810	4675					36000
2 nd		16																
Sub-Total		32																
		1689600	Avg. Prod. (Kg)	2466	962	2329	3125	4078	3829	2500	3211	3350	4737	3388	3936	37911		
			Low Prod. (Kg)	1944	775	1666	2256	2634	2746	1579	2918	2810	4464	3115	3605	30512		
			Avg. Value (UgS)	493200	192400	465800	625000	815600	765800	500000	642200	670000	947400	677600	787200	7582200		
1 st	Herbicide – Liters	7	Labor Value (UgS)															0
2 nd		6	Net Available (UgS)	493200	192400	465800	625000	815600	765800	500000	642200	670000	947400	677600	787200	7582200		
Sub-Total		13																
Total		1884600																

Appendix G Sample Format of Production and Input Data Needed for Tea Improvement Loans (0.2 ha. or 1.25 acres)

KAYONZA GROWERS TEA FACTORY / KAYONZA MICROFINANCE SACCO LTD.

Estimated NPK Price/Bag	52800
Estimated Herbicide Price/L	15000
Current Green Leaf Price/Kg	200
Current Advance Price/Kg	170

UTGC #	Name	Area Ha.	Green Leaf Production													Sub-total	
			Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		
306516		0.50															
306478		0.12															
306665		0.18	2003												1440	1902	3342
	Total	0.80	2004	1721	1364	1355	1172	1408	548	142	172	1370	1037	1034	774	12097	
	Fertilizer	Value (UgS)	2005	1220	640	968	1510	1145	856	739	417	494	845	1286	2774	12894	
1 st	5	264000	2006	838	552	962	1131	1832	867	1032	725	854	1373			10166	
2 nd	8	422400	Avg. Prod. (Kg)	1260	852	1095	1271	1462	757	638	438	906	1085	1253	1817	12834	
Sub-Total	13	686400	Low Prod. (Kg)	838	552	962	1131	1145	548	142	172	494	845	1034	774		
	Herbicide		Avg. Value (UgS)	252000	170400	219000	254200	292400	151400	127600	87600	181200	217000	250600	363400	2566800	
1 st	2	30000	Labor Value (UgS)													0	
2 nd	3	45000	Net Available (UgS)	252000	170400	219000	254200	292400	151400	127600	87600	181200	217000	250600	363400	2566800	
Sub-Total	5	75000															
Total		761400															

Appendix H Direct Payment Authorization for Green Leaf Payments

Direct Payment Authorization

I, Mr./Mrs./Ms. _____, Kayonza MF SACCO, Ltd. member No. _____, hereby request that the Kayonza Growers Tea Factory deposit all of the payments for green leaf tea from the following tea gardens to my SACCO account, as one unique payment each period:

UTGC # _____ located at _____

UTGC # _____ located at _____

UTGC # _____ located at _____

UTGC # _____ located at _____

Signed at _____ on _____
(Location) (Date)

Signed by: Mr./Mrs./Ms. _____
(Name) (Signature)

Witness: Mr./Mrs./Ms. _____
(Name) (Signature)

Certified by: Mr./Mrs./Ms. _____ LC I _____
(Name) (Position)

(Signature)

Approved by:

Kayonza Growers Tea Factory

Mr./Mrs./Ms. _____
(Name) (Position) (Signature)

Kayonza MF SACCO, Ltd.

Mr./Mrs./Ms. _____
(Name) (Position) (Signature)

Appendix I Pledged Savings Account Automatic Deduction Authorization Form

Automatic Deduction Authorization

I, Mr./Mrs./Ms. _____, Kayonza MF SACCO, Ltd. member No. _____, hereby authorize the Kayonza MF SACCO, Ltd. to automatically deduct UgS _____ each month from my green leaf tea payments to be deposited into my Pledged Savings Account No. _____.

Signed at _____ on _____
(Location) (Date)

Signed by: Mr./Mrs./Ms. _____ (Name) _____ (Signature)

Witness: Mr./Mrs./Ms. _____ (Name) _____ (Signature)

Approved by:

Kayonza MF SACCO, Ltd.

Mr./Mrs./Ms. _____ (Name) _____ (Position) _____ (Signature)