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# SENSITIZATION PROGRAM DESIGN FOR KAYONZA SACCO TEA BORROWERS

FINAL REPORT



**December 2006**

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# Rural SPEED

Rural Savings Promotion & Enhancement of Enterprise Development

## SENSITIZATION PROGRAM DESIGN FOR KAYONZA SACCO TEA BORROWERS

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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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Rural SPEED

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## **ABAHINGYI, FACTORY NA SACCO**

### **OKUKWATANISA**

*Farmer, Factory, and SACCO*

*United/Working Together*

#### **A. Introduction:**

1. The Kayonza Tea Factory has been a parastatal of Uganda until 2002. At that time shares of the company were offered to the tea growers that sold their green leaf to the Factory. No one tea grower, or small group of tea growers constitutes a large majority. The Kayonza Tea Factory continued the programmes and activities that the growers were accustomed which included extension services, mid-month advances, and the selling of fertilizer at a subsidized cost. For FY 2005 the Factory reported a 207,377,000 loss. The previous year, 2004, the loss was 646,229,000. The Factory is also looking at substantial capital expenditures to modernize and build efficiency in the processing of green leaf.
2. The first year as a corporation a dividend was declared. Since then, no dividend has been declared, although a small “bonus” has been added to the disbursements to the tea growers which is expensed by the Factory, instead of taxed as a dividend. The tea growers do not see this small added bonus as a dividend.

#### **B. Present Problem:**

1. The Kayonza Tea Factory cannot afford to subsidize the tea grower. The Factory has identified one area of cost that they want to transfer directly to the tea growers. That area is the purchase of fertilizer and herbicide. Presently, the Factory purchases the herbicide and fertilizer. The fertilizer is purchased at 52,800 Ush 50kg a bag and sold to the farmers at 42,000 Ush. a bag. The herbicide is sold at cost. Not only is the Factory subsidizing the fertilizer; but, because of cash flow and other problems, is not dependable to provide the inputs on a timely basis.
2. The Kayonza Tea Factory also wants the quantity and quality of tea increased. Proper application of herbicide and fertilizer would improve the quantity. A higher payment scheme for higher quality leaf is also being considered as an incentive; however, it is for farmers within 10 k of the Factory and pushes the transport costs to those farmers. This is a serious concern for behavioural change: there is currently no incentive to increase quality. There is one price (200 Ush kg) paid for to the farmer for kg plucked, and one price to the plucker (60 Ush kg) regardless of quality. In theory, if the quality is very low, the clerk will refuse it; however, it is said that the clerks can be corrupted. The quality of the leaf plucked is going down and this pay practice is probably the major reason. It will be a greater challenge to motivate the farmer to adopt best practices of tea farming without a higher price paid for quality leaf. There was not information that this author received concerning projections of increased profit from the Tea Factory as to realistic schemes of paying by quality, not quantity.
3. Rural SPEED has suggested an intervention to create a tea improvement loan product that will ensure greater tea productivity, delivery, income and capacity to repay. To do that, it is recommended that tea growers behave as SACCO members and borrowers with a strong adult education component.

**C. Analysis:**

1. Several observations were made concerning the relationship between the Kayonza Tea Factory and the tea growers:

Challenges:

- a. The Factory says that the tea growers view the Factory as “they” not fully understanding that, as share holders, many farmers are suppliers and owners of the Factory.
- b. The same can be said about the Factory whose communication to the tea growers has been sparse and who refer to the tea growers as “they”.
- c. A strong position by some members of management that if the farmers can be educated and improve production, the Factory will be run profitably.
- d. The farmers know that the quality of leaf is low. There is no incentive to increase quality as they are paid by kg, not by quality.
- e. The Factory is concerned that the farmers will not approve of assuming the responsibility of buying their own fertilizer using a loan from a SACCO which would carry an interest charge between 2.5 and 3.0% a month.
- f. Five hundred tea growers are already members of a SACCO. However, there would have to be another 500 to 1,000 new members to adequately fund a Tea Improvement Loan Product.
- g. There are currently no institutional channels for educating farmers and extensions services are weak.
- h. All 4,000+ farmers are lumped in one category. Individuating the farmers by routes would help to create a more competitive atmosphere for increasing quality.
- i. The roll-out of the project to educate and get the required numbers of new SACCO members on board is very short.

Benefits:

- a. The tea owners are on 13 different tea routes serviced everyday by Factory trucks at various green leaf collection points. This affords an easier gathering of farmers for education/sensitisation programmes.
- b. The tea growers have already identified lead farmers in their area, although who these farmers are have not as yet been identified by the Factory.
- c. The SACCO in the area will receive needed technical support to undertake rapid expansion and development of new loan products.
- d. All three groups (Factory, farmers, and SACCO) are unified in wanting to increase productivity and wealth accumulation for all parties.
- e. Donor agencies are willing to support education/sensitisation, short-term revolving fertilizer fund (2 year), technical support and on-site practical support (6 months).

**D. Educational/Sensitisation Analysis:**

1. The previous relationship among the tea growers, Factory and Government has been detrimental to the passing on of responsibility. The Government subsidised the Factory and tea growers for many years regardless of performance. When the Government privatised the Tea Factory, the behaviours continued until the Factory is now forced by declining profit to make hard decisions which pushes responsibility onto the growers. This is where the responsibility lies; however, it is paramount that everyone understands the benefit of such actions.
2. The scope of work to Mango Tree from Rural/SPEED is to create educational tools to sensitise the tea grower about the benefits of becoming members of a SACCO and to take up the Tea Improvement Input Loan. That can be done; however, there are other aspects of this project that Rural/SPEED might want to consider. Based on the information gathered, the Tea Improvement Input Loan would be most successful if the farmers had a working knowledge of their own income and expenses and more communication with and knowledge of the Tea Factory. This ideal would entail much more training and tool development than what is current in the SOW. While Mango Tree advocates for more

education for the farmer and between the Factory and farmer; it is the decision of Rural/SPEED, based on their time frame and budget, whether this more inclusive proposal would be doable.

3. An inclusive educational/sensitisation programme would include the following:
  - a) Tea Growers:
    - Best practices of tea growing.
    - Scenarios of current profit (loss) using 1 acre and 2.5 acres as examples.
    - Scenarios of realistic, possible yields and increase in profit by increasing yield 50% and 100% which is deemed very doable by using best practices.
    - Training in simple income and expense sheets in an exercise book
    - Weekly sheets from the Factory via the clerk collection truck to inform growers as to the quality of the tea produced. (feedback)
    - Cash flow and the importance to the farmer.
    - Lead farmer identification for training/sensitisation using specialized teaching tools.
  - b) Kayonza Tea Factory:
    - Best practices of corporation.
    - Profit Structure of Tea Factory based on 9 categories of tea sold (current information for 2006 shows a 258 and 942 Ush LOSS per kg of the lowest two grades produced and sold which is the direct result of low quality plucking).
    - Burden on factory of subsidized fertilizer programme.
    - Consistent production for profitability instead of highly fluctuating green leaf quantities which increases cost of production and quality of production.
    - Responsibilities of the Board (protection of the assets of the corporation)
    - Importance of communication to the tea growers.
    - Proposed capitalized expenditures and the need for continued planned modernization.
    - Leaf manager training using specialized teaching tools.
  - c) SACCO
    - Best practices for SACCO.
    - Principles of a SACCO.
    - Benefits of becoming a SACCO member.
    - Responsibilities of a SACCO member.
    - What it takes to get a loan.
    - How the Tea Improvement Loan works.
    - How the Labour Loan works.
    - The power of collective savings.
4. It is suggested that the channels for educational training would be to use lead farmers on the different routes and possibly at each collection station matched with the Leaf Managers from the Factory. They would work together to train and build communication between the Factory and the farmers.  
 The loan officer and the Manager at the SACCO would be trained and given educational tools to inform farmers about the requirements and benefits of becoming members and qualifying for a Tea Improvement Input Loan.  
 It is also suggested that *one* person be trained in all aspects of the educational materials and can be a resource person to the farmers, SACCO and the Factory. Gregory who is the Field Manager would be a good choice.
5. The educational tools would incorporate low-literacy training materials using cartoons, simple charts, games, and role plays.
6. Development of a simple evaluation tool to measure comprehension, especially of membership and borrowing within a SACCO.

### **E. Critical Considerations**

1. The ideal proposed education/sensitisation programme is designed to engage all *three* players to join together in changing behaviours to acquire higher prosperity. This calls for a higher degree of communication especially between the Factory and the tea growers to continually engage them in the activities/concerns and create feedback. The current parental role of the Factory should be changed to one of partnership.
2. The proposed ideal programme is not a one-shot fix-them approach but would emphasize the continued sensitisation responsibility by all three players.
3. If the ideal programme is considered, the complexity of engaging all three players in education/sensitisation will result in many tools that will have to be developed, tested, and revised (although revisions are fairly simple).

### **G. Questions**

1. There are several questions that should be addressed to adequately design the educational/sensitisation aspect of this project:
  - a. Is it realistic to begin the loan programme in February?
  - b. Will just applying fertilizer significantly increase income to cover loan debt? Some farmers think that the cash flow to pay labour is a significant problem to hinder higher production.
  - c. After consideration of the above information, what is the SOW that Mango Tree will undertake? Based on the limited time of Rural/SPEED's contract in Uganda, should the SOW by Mango Tree be restricted to the narrow focus of introducing the Tea Improvement Input Loan?