

Memorandum of Understanding

Between

STAKEHOLDERS

COTTON ASSOCIATION

THE BANK

INSURANCE CORPORATION

COMPANY 1

COMPANY 2

COMPANY 3

COMPANY 4

COMPANY 5

For collaboration on

..... CREDIT SCHEME

2011/12 Agriculture season

1. INTRODUCTION

This Memorandum of Understanding (MoU) outlines the roles of the stakeholders in the **CREDIT SCHEME**. The principal actors are COTTON ASSOCIATION, and THE BANK. The following stakeholders are considered to have an important but supportive role in the Scheme:

- COMPANY 1
- COMPANY 2
- COMPANY 3
- COMPANY 4
- COMPANY 5

All of the involved stakeholders share a common goal of improving cotton sector and increasing income among small scale farmers in the country. The parties also take a special cognizance of the fact that this is a major business deal. Notwithstanding the varying motives of the parties, be it in respect of money making or increasing the powerbase and influence, it is clear that all of the parties have a steadfast commitment to ensuring that the **CREDIT SCHEME** succeed. It is therefore imperative that the parties discharge their respective roles and functions in utmost good faith and commitment in order to achieve successful implementation and maintain credibility.

This M.o.U provides an operational framework through which the parties may relate and collaborate within the Credit Scheme.

2. RESPONSIBILITIES OF COLLABORATING INSTITUTIONS

I. COTTON ASSOCIATION

- a) COTTON ASSOCIATION shall link small scale farmers to THE BANK on the basis of membership through its affiliated District Farmers' Association (DFAs) only;

- b) The COTTON ASSOCIATION-DFA's shall operate in a transparent manner by insuring that the member-recipients provide validated, acceptable records and accounting reports;
- c) Loan Application Forms for small scale farmers shall be availed through the COTTON ASSOCIATION Districts structures;
- d) COTTON ASSOCIATION and/or DFAs shall provide letters of introduction to THE BANK signed by the Chairman of the DFA and the Agribusiness Manager for account opening by small scale farmers, farmer groups, individuals or cooperatives;
- e) COTTON ASSOCIATION and/or DFA shall provide guidance to small scale farmers on agricultural insurance policy proposal forms for the INSURANCE CORPORATION;
- f) Organize effective logistical collection points from where farmers can collect inputs.
- g) Strategize in low cost delivery of inputs;
- h) Ensure that INSURANCE CORPORATION received insurance proposals before 25th December;
- i) The Agribusiness Managers with the assistance of Contact Farmers shall monitor the performance of the crops and loan repayment for benefiting farmers at two stages:
 - 1) **Planting**
 - 2) **Pre-harvest**

II. THE BANK

- a) Open and maintain three year non withdrawal savings accounts on agreed minimum account balance per farmer (currently at);
- b) Open accounts for the farmer groups in respect of the 50% cash farmer groups contributions;
- c) Centralize management of accounts for the CREDIT SCHEME at various branches act as receivers of application for funds;
- d) Open and maintain accounts for the Scheme at various branches;
- e) Collaborate with other stakeholders for effective implementation of the CREDIT SCHEME Programme;
- f) Issue group offer letters and maintain appropriate records per all transactions relating to the programme;
- g) Provide the premium cover to the INSURANCE CORPORATION,
- h) Prepare simple reporting forms for monetary purpose and train staff on their use.
- i) Provide letter of instruction containing payment formats relating to stop orders

III. THE INSURANCE CORPORATION

The Small Scale farmers to participate in the CREDIT SCHEME shall be required to insure their crops against any loss with the INSURANCE CORPORATION. Therefore, INSURANCE CORPORATION shall;

- a) Through COTTON ASSOCIATION-DFAs provide insurance proposal forms to all farmers participating in the scheme
- b) With the help of COTTON ASSOCIATION-DFAs inform benefiting farmers about terms and conditions for the insurance
- c) Provide insurance cover to the benefiting farmers as outlined in their policy
- d) Offer cheaper insurance policies upon good performance by farmers

IV. Ginning companies

- a) After THE BANK payment, supply of certified cotton seed to farmers through the DFAs without seed cotton supply obligation
- b) Purchase the cotton crop from the farmers to a price as agreed with the COTTON ASSOCIATION/DFAs.
- c) Pay the monies for the purchase of farmers produce directly to THE BANK
- d) Pay the farmers competitive prices

3. ELIGIBILITY TO APPLY FOR A LOAN

- a) Eligibility to enter CREDIT SCHEME is by membership to THE COTTON ASSOCIATION-DFAs.

4. CONDITIONS OF THE LOAN FACILITY

For the 50% Credit facility the following conditions will apply during the 2011/12 Agriculture Season:-

- a) Legal Status; Farmers must be organized in legal groups that are able to open a bank account with THE BANK. The farmers will open a group bank account and each member of the group must open a personal savings account with a minimum of K..... This is non-withdrawable and there are no ledger fees on the savings account;
- b) Membership; fully paid up COTTON ASSOCIATION-DFA members shall be eligible for the loan;
- c) Group requirements; Farmers cannot apply as individuals but apply as a group (numbers ranging 10 to 50 farmers per group) or can apply as an Information Centre/Study Circle provided it is legally registered.
- d) Security; Farmers in the group have to co-guarantee other members for loan repayment;
- e) Funding Amounts; Individual farmer to put in% of the loan amount as cash collateral into the group account by THE BANK;
- f) Interest rate: Individual Farmers will be paying% interest to THE BANK on the borrowed loan amount, whilst the% collateral deposited will accrue interest at the rate to be agreed by THE BANK and COTTON ASSOCIATION at the time of setting up the facility.
- g) Insurance; In addition to the% interest to THE BANK farmers will have to pay a% insurance premium on the% loan. Thus the total interest is%
- h) Duration of the loan; Individual Farmers will have to pay back the% loan plus the% (Interest + insurance) interest rate not later than DAY/MONTH each year. A farming season is considered to be a period from of the following year.

5. COMMENCEMENT OF MOU

The Memorandum of Understanding shall commence and will be in force upon signing by the parties thereto.

Conditions

- 1) This M.O.U may be amended at anytime through mutual consent and signatories of each party.

- 2) Either party may terminate this M.O.U by giving 90 days notice

Each party hereby agrees to fulfill their respective responsibilities according to the description, terms and conditions of this M.O.U.

Signed on behalf of COTTON ASSOCIATION

Full name:

Signature: Date:

Designation:

Witness:

Signature: Date:

Designation:

Signed on behalf of THE BANK

Full name:

Signature: Date:

Designation:

Witness:

Signature: Date:

Designation:

Signed on behalf of INSURANCE CORPORATION

Full name:

Signature: Date:

Designation:

Witness:

Signature: Date:

Designation:

COMPANY 1

Full name:

Signature: Date:

Designation:

Witness:

Signature: Date:

Designation:

COMPANY 2

Full name:

Signature: Date:

Designation:

Witness:

Signature: Date:

Designation:

COMPANY 3

Full name:

Signature: Date:

Designation:

Witness:

Signature: Date:

Designation:

COMPANY 4

Full name:

Signature: Date:

Designation:

Witness:

Signature: Date:

Designation:

COMPANY 5

Full name:

Signature: Date:

Designation:

Witness:

Signature: Date:

Designation: