



KENYA SUGAR BOARD

SUGAR DEVELOPMENT FUND

OPERATIONS MANUAL

TABLE OF CONTENTS

	PAGE
FOREWORD.....	7
CHAPTER 1.....	9
THE SDF LEVY AND ITS COMPONENTS.....	9
1.1 Introduction.....	9
1.2 SDF Levy Components.....	9
1.3 SDF Operating Budget and Reporting.....	10
CHAPTER 2.....	11
SDF BOARD COMMITTEE AND AGENTS OF THE SUGAR DEVELOPMENT FUND.....	11
2.1 Composition, Roles and Responsibilities of SDF Board Committee.....	11
2.2 Role of the SDF Board Committee.....	11
2.3 Appointment of Agents.....	11
2.4 Remittance of Monies Collected by Agent.....	11
CHAPTER 3.....	13
LEVY COLLECTION AND INVESTMENT GUIDELINES.....	13
3.1 Levy Payment.....	13
3.2 Mode of Payment.....	13
3.3 Record Maintenance and Submission of Returns.....	13
3.4 Production of Books, Records and Information.....	14
3.5 Determination of Levy Payable.....	14
3.6 Refund of Levy.....	14
3.7 Records.....	15
3.8 SDF Investments.....	15
CHAPTER 4.....	17
ELIGIBILITY AND PURPOSE OF THE FUND.....	17
4.1 Eligibility Criteria.....	17
4.2 Purpose of Funds.....	17
CHAPTER 5.....	20
SUGAR DEVELOPMENT FUND LENDING GUIDELINES.....	20
5.1 General Requirements.....	20
5.2 Procedures for Accessing Cane Development and Productivity Enhancement Loans.....	22
5.3 Procedures for Accessing Factory Development and Rehabilitation Loans....	25
CHAPTER 6.....	29
PROCEDURES FOR SUGAR DEVELOPMENT FUND GRANT	29
6.1 Grants for Infrastructural Development and Maintenance.....	29
6.2 Procedures for Accessing Sugar Cane Farmers Organization Grants.....	33

CHAPTER 7.....	36
LOAN COLLATERAL DOCUMENTS.....	36
CHAPTER 8.....	38
LOAN COLLECTION AND CREDIT MANAGEMENT GUIDELINES.....	38
8.1 Loan Collection.....	38
8.2 Loan Monitoring and Evaluation.....	38
CHAPTER 9.....	45
ANNEXURES.....	45

DRAFT

LIST OF TABLES

Table 1: Security margin.....	36
Table 2: Loan collection notice.....	37
Table 3: Grading table on Classification of debt.....	44

DRAFT

DEFINITION OF TERMS

Agent: an entity appointed by Kenya Sugar Board to act on its behalf.

Board: means the Kenya Sugar Board as defined in Section 2 of the Sugar Act No. 11 of 2024.

Grants: means a sum of money given to a Sugarcane Farmer Organization, a Miller, or any other Sugar industry value chain actors who may be eligible for funding that does not need to be repaid.

In duplum Rule: means Interest stops running when unpaid interest equals the capital amount.

Loans: means money borrowed by a loanee that must be repaid with interest.

Miller: means a person licensed to operate a sugar - or - Jaggery mill in Kenya for the production of sugar including refined sugar and other by-products

Reserve: means a portion of funds set aside to cover any unforeseeable eventualities.

Special Groups: means Persons with Disabilities (PWDs), Women and Youth in the sugar sector.

Sugarcane Farmer's' Organization: means a legal entity formed by sugar crop growers to collectively advocate for their interests, improve productivity, enhance bargaining powers to access inputs, markets for the benefit of their members; and receive technical support

Grower: means a person who produces sugarcane or any crop in Kenya for the manufacture of sugar.

ACRONYMS

CEO	:	Chief Executive Officer
CIF	:	Cost, Insurance and Freight value
KESRETI	:	Kenya Sugar Research and Training Institute
KSB	:	Kenya Sugar Board
PWD	:	Persons living with Disabilities
QR Code	:	Quick Response Code
SDF	:	Sugar Development Fund
SDL	:	Sugar Development Levy

FOREWORD

Section 41(1) of the Sugar Act No. 11 of 2024 provides for the establishment of the Sugar Development Fund which shall be administered by the Board. The Fund shall consist of:

- 1) The Sugar Development levy
- 2) Any funds provided by bilateral or multilateral donors for the purposes of the Fund
- 3) Any moneys provided by the National Assembly for the purposes of the Fund
- 4) Any moneys provided by a county assembly for the purposes of the Fund
- 5) Moneys from any other source approved by the Board

The Fund shall be managed by a committee drawn from the Board of Directors who form the SDF Board Committee. The Fund shall be used for providing:

- 1) Sustainable, affordable credit and advances to farmers and millers for cane development and productivity enhancement
- 2) Sustainable, affordable credit and advances to millers for factory development and rehabilitation;
- 3) Grants to sugarcane producing regions on pro-rata basis based on production capacity for infrastructural development and maintenance; and
- 4) Grants for the furtherance and exercise of the functions of sugarcane farmers organisations.

This Operations Manual for the Sugar Development Fund (SDF) integrates best practices in agricultural lending. It provides a structured framework for credit and grants appraisal, disbursement and risk management. It has been developed as a comprehensive guide to ensure consistent, sound, and prudent credit and grants practices at all times. The Manual outlines the principles, policies, and procedures that govern the extension and management of credit, application and issuance of grants, and serves as a reference for all officers involved in the administration of the SDF.

This Manual reflects the Board's commitment to transparency, accountability, and collaboration in fostering a dynamic and sustainable future for the sugar industry. The Board looks forward to seeing the positive impacts the Fund will create across the sugar value chain. It is the intention of the Board to ensure that this Manual is reviewed and updated as and when necessary in order to keep

pace with changes in the environment and business processes. Subsequent changes to the Sugar Development Fund Manual shall be presented to stakeholders and the Board of Directors for approval before implementation.

**CHIEF EXECUTIVE OFFICER
KENYA SUGAR BOARD**

DRAFT

CHAPTER 1

THE SDF LEVY AND ITS COMPONENTS

1.1 INTRODUCTION

The Kenya Sugar Board is the apex institution mandated to regulate, develop and promote the sugar industry in Kenya.

The Sugar Development Fund (SDF) is established under Section 41 of the Sugar Act No. 11 of 2024 and is administered by the Kenya Sugar Board with the purpose of creating a fund to finance the activities of the Sugar Industry in Kenya.

The Fund is financed through the Sugar Development Levy charged on both domestic and imported sugar; any funds provided by bilateral or multilateral donors, the National Assembly, a County Assembly; or any other source approved by the Board. Levy on domestic and imported sugar is collected through Government revenue collection platforms and/or contracted agents.

The SDF Board Committee through the SDF Directorate manages the Fund. The Fund's beneficiaries shall be millers, sugarcane growers, sugarcane farmers' organizations, Kenya Sugar Research and Training Institute (KESRETI), Kenya Sugar Board (KSB) and any other Sugar Industry stakeholders that may be eligible for funding under the SDF.

1.2 SDF LEVY COMPONENTS

The Sugar Development Levy shall be applied to fund the following activities and shall be appropriated as follows:

	<u>%</u>
a) Factory development and rehabilitation	15
b) Kenya Sugar Research and Training Institute (KESRETI)	15
c) Cane development and productivity enhancement	40
d) Infrastructural development and maintenance	15
e) Kenya Sugar Board (KSB) administration	10
f) Sugarcane Farmers Organizations	<u>5</u>
	<u>100</u>

The components for Infrastructure Development and Maintenance, KSB, KESRETI and the sugarcane farmers organizations shall be applied as grants, while Factory Development and Rehabilitation and Cane Development

and Productivity Enhancement will be disbursed as loans. The Sugar Development Fund shall retain an equivalent of 5% of the funds collected as reserve funds. The Reserves accumulated by the Fund shall support the integrity of the Fund, and will act as contingency funds for unexpected occurrences in the sugar industry. The approval for utilization of these funds lies with the Board upon recommendation of the SDF Board Committee.

1.3 SDF OPERATING BUDGET AND REPORTING

The Sugar Development Fund shall have its own operating budget distinct from that of the Board. The Fund shall have separate ledger accounts and its operations accounted for separately from those of the Board. The Fund shall prepare its own set of annual reports and financial statements distinct from those of the Board.

CHAPTER 2

SDF BOARD COMMITTEE AND AGENTS OF THE SUGAR DEVELOPMENT FUND (SDF)

2.1 COMPOSITION, ROLES AND RESPONSIBILITIES OF THE SDF BOARD COMMITTEE

The Fund shall be run by a Committee drawn from the Board of Directors who form the SDF Board Committee. The composition of the Committee is as follows:

- a) One Millers' representative
- b) One Growers' representative
- c) The representative of the Council of Governors
- d) Principal Secretary, Agriculture
- e) KSB Chief Executive Officer

2.2 ROLE OF THE SDF BOARD COMMITTEE

- a) Oversight the administration of the Sugar Development Fund;
- b) Recommend for the Board's approval the levy rate, to be imposed by the Cabinet Secretary;
- c) Review and recommend the lending rates and charges to be administered by the Board;
- d) Recommend to the Board the appointment of Levy and debt collection agents;
- e) Development and review of policy guidelines and procedures for the operations and management of the Fund;
- f) Any other role that the Board may assign to the Committee, from time to time.

2.3 APPOINTMENT OF AGENTS

The Board may by written notice appoint any person or institution identified as capable to serve as the Fund's agent for the purposes of collection and recovery of the levies and loans due. Where circumstances so permit, the Board may specify the amount of levy or loan to be collected and recovered by such agent.

2.4 REMITTANCE OF MONIES COLLECTED BY AGENT

All monies collected by the agent shall be remitted directly to the Fund. The Agent shall also submit the levy and/or debt collection report to the Sugar Development Fund within ten days from the date of receipt of the funds.

DRAFT

CHAPTER 3

LEVY COLLECTION AND INVESTMENT GUIDELINES

3.1 LEVY PAYMENT

All monies received in respect of the levy on domestic sugar shall be paid to the Board not later than the tenth day of the month following the month when the levy became due. The payment shall be accompanied with a filled SDL payment returns Form *KSB/SDF/SDL.02*.

Levy on imported sugar is payable at the point of entry and shall be accompanied with a filled SDL payment returns Form *KSB/SDF/SDL.01*. Levy on exported sugar is payable at the point of exit and shall be accompanied with a filled SDL payment returns Form *KSB/SDF/SDL.03*.

If a person fails to pay any amount payable by way of the levy on or before the said date, a sum equal to three per centum of the amount shall be added to the amount due for each month or part thereof during which the amount due remains unpaid. If the monies are not paid on or before the said date, the amount due and any sum payable shall be a civil debt recoverable summarily by the Board. The Board shall also deploy other mechanisms for recovery including withdrawal and suspension of licenses, certificates and permits.

3.2 MODE OF PAYMENT

Levy payable in respect to a particular month shall be paid by way of a bank deposit, banker's cheque, electronic money transfer, mobile money transfer, real time gross settlement through Government approved platforms, or such other modes as the Board may direct from time to time.

3.3 RECORD MAINTENANCE AND SUBMISSION OF RETURNS

Every miller, shall maintain or cause to be maintained a monthly record of factory performance and submit returns to the Board as per the Sugar (General) Regulations, 2025. Similarly, every importer and exporter shall maintain or cause to be maintained a record of consignments imported or exported and submit returns to the Board as per the Sugar (Imports and Exports) Regulation, 2025 in the Returns for Exporter/Importer Form *KSB/IE/06*.

3.4 PRODUCTION OF BOOKS, RECORDS AND INFORMATION

To obtain full information in respect of the levy liability of any miller, importer, exporter, or any other purposes, the Board or an authorized officer may require:

- a) The production for examination, at such time and place as he may specify, of any records, books of account, statements, or other documents which the Board may consider necessary for such purposes.
- b) The production forthwith, for retention for such period as may be reasonable for the examination thereof, of any records, books of account, and other documents which the Board may specify.
- c) Any person to attend, at such time and place as may be specified, for the purpose of being examined in respect to any matter or transaction appearing to be relevant to the levy liability of any person.

3.5 DETERMINATION OF LEVY PAYABLE

The SDL payable on domestic sugar is determined by taking into account a particular day's opening stocks in tonnes, adjusted with the production and closing stocks for that day. The resultant net sales figure, in tonnes, is then multiplied by the day's selling price per tonne to determine the total value of sales. This total sales value is then levied at the prescribed rate.

SDL on imported sugar is charged on the CIF value of the consignment.

3.6 REFUND OF LEVY

Where a person has made an erroneous payment to the Fund, the person may apply to the Board for a refund of the erroneous amount in the SDL claim Form *KSB/SDF/SDL.04*

An application for a refund shall be made within ninety days of the Board receiving the erroneous amount.

An application for a refund shall be accompanied by any records, documents and evidence required to:

- a) Prove the claim
- b) Determine the amount of the money that was remitted to the Board and the amount to be refunded.

If, in the opinion of the Board, an applicant has misrepresented a material fact, the application for a refund under this section shall be disallowed and no refund shall be made.

If the amount has been verified to be erroneous, the SDF Board Committee shall authorize the refund. Any underpayment shall be declared immediately in the following month's payment return form and paid to the Fund.

3.7 RECORDS

Every miller, importer or exporter shall maintain records in the prescribed form: Miller Returns KSB/08A (i) and Returns forms for Importers and Exporters KSB/IE/06 indicating all the information necessary to enable the Board determine the amount of levy to be collected and remitted. These records shall be kept for a period of seven years after the end of the calendar year in which the records are created.

3.8 SDF INVESTMENTS

In instances where there are Sugar Development funds that are not required for immediate utilization, these funds shall be invested prudently in authorized financial instruments giving the best possible returns. The investments could either be on a short-term or long-term basis depending of the cash flow projections. The investments shall be guided by:

- a) Sugar Act, No. 11 of 2024
- b) Public Finance Management Act, 2012
- c) State Corporations Act
- d) Government circulars on investments

3.81 Procedures for Investments

- a) Quarterly cash flow projections will be prepared on monies expected to be received and disbursed.
- b) Any funds not required for immediate utilization, will be invested in Treasury Bills, Bonds or Call Deposits.
- c) For call deposits, the Board shall negotiate for competitive interest rates from approved commercial banks.
- d) The Board shall prepare an analysis of the quoted interest rates and make a recommendation to the CEO for approval.

- e) Upon approval, the Board shall proceed and place the investment as per the approval.
- f) The bank in which the investment is made will issue a certificate of deposit.
- g) The SDF Directorate shall maintain a register of the investments.

DRAFT

CHAPTER 4

ELIGIBILITY AND PURPOSE OF THE FUND

4.1 ELIGIBILITY CRITERIA

4.1.1 Eligible beneficiaries for funding

- a) Sugarcane growers
- b) Sugarcane farmer organizations
- c) Millers
- d) Kenya Sugar Research and Training Institute (KESRETI)
- e) Kenya Sugar Board (KSB)

4.2 PURPOSE OF THE FUNDS

4.2.1 Factory Development and Rehabilitation

Factory Development and Rehabilitation shall be appropriated at fifteen (15%) per centum of the Levy. The funds will be issued as loans towards maintaining and improving the production efficiency of the existing sugar mills through:

- a) Procurement of new machinery and equipment
- b) Rehabilitation and refurbishment of factory machinery and equipment
- c) Upgrading of factory processing systems
- d) Factory annual maintenance
- e) Any other factory maintenance related works as may be determined by the Board from time to time

4.2.2 Research and Training

An allocation of fifteen (15%) per centum of the Levy shall be made to the Kenya Sugar Research and Training Institute (KESRETI) for research and training.

4.2.3 Cane Development and Productivity Enhancement

Cane Development and Productivity Enhancement shall be appropriated forty (40%) per centum of the Levy. The funds will be issued as loans towards the development, maintenance and enhancement of cane production and shall include:

- a) Sugarcane development
- b) Sugarcane maintenance
- c) Seedcane development
- d) Procurement of farm machinery and implements
- e) Water development, conservation and irrigation
- f) Any other cane development and productivity enhancement activities as may be determined by the Board from time to time

4.2.4 Infrastructural Development and Maintenance

Infrastructural development and maintenance shall be allocated fifteen (15%) per centum of the Levy. The Infrastructural development and maintenance funds will be issued as grants to sugarcane producing regions on pro-rata basis based on their production capacity and shall be used for:

- a) Acquisition of new equipment for road maintenance
- b) Construction of roads, bridges and culverts
- c) Maintenance of machinery and replacement of unserviceable equipment
- d) Maintenance of existing roads, bridges and culverts
- e) Any other infrastructural development and maintenance works as may be determined by the Board from time to time

4.2.5 Board Administration

The Kenya Sugar Board shall receive ten (10%) per centum of the Levy to finance its operations.

4.2.6 Sugarcane Farmers Organization

An allocation of five (5%) per centum of the Levy shall be applied for the furtherance and exercise of the functions of sugarcane farmers' organizations for purposes of:

- a) Advocacy of sugar crop farmers' rights
- b) Corporate governance
- c) Digitalization of farmer records and business processes
- d) Capacity building in Good Agricultural Practices (GAPs)

- e) Any other functions of Sugarcane Farmers' Organizations as may be determined by the Board from time to time

DRAFT

CHAPTER 5

PROCEDURES FOR SUGAR DEVELOPMENT FUND LENDING

5.1 GENERAL REQUIREMENTS

In order to access the SDF loan facility, an applicant shall:

- a) Abide by the Industry Regulations, Guidelines and Standards
- b) Not have any non-performing loan(s) with the Board
- c) Submit a duly filled application form accompanied with a business proposal
- d) Submit a copy of their KRA - PIN Certificate
- e) Submit a valid Tax Compliance Certificate
- f) Submit a valid CR 12 Form
- g) Submit a Credit Reference Bureau (CRB) Report

5.1.1 REQUIREMENTS FOR INDIVIDUAL GROWERS

Individual sugarcane growers shall access the loan facility at a lending rate of 5% per annum. The following are the requirements for an individual grower to access a loan facility from the Fund. The grower shall provide:

- a) A copy of their National Identity Card/Passport
- b) A Sketch map and GPS coordinates of the project fields
- c) If using land as security, provide a copy of the land Title document, sketch map and GPS coordinates of the land security
- d) An irrevocable letter of undertaking in the Form KSB/SDF/IRO.1 to the miller to deduct and remit the loan proceeds directly to the SDF as per the repayment schedule
- e) Sugarcane delivery statements for the last three years, where applicable
- f) Certified copies of authentic Bank/SACCO/Mobile Money statements for the preceding twelve (12) months
- g) If using land as security, the borrower shall provide, on approval of the loan, a valuation report of the land issued by valuers approved by the Board.
- h) For Special Groups, the loan shall be offered at an interest rate of 1% less from the prescribed rate by the SDF Board Committee. The Special Groups are categorized as follows:

- i. Women - Provide certified copy of National Identification Card/Passport
- ii. Youth (below 35 years of age) - Provide certified copy of National Identification Card/Passport
- iii. Persons living with Disability (PWD) - Provide certified copy of Disability Card (second Generation with QR Code)

5.1.2 REQUIREMENTS FOR SUGARCANE FARMER ORGANIZATIONS

Sugarcane Farmers' Organizations shall access the loan facility at a lending rate of **4%** per annum. The following are the requirements for sugarcane farmers' organizations to access a loan facility from the Fund:

- a) Shall be registered with the Kenya Sugar Board
- b) Copies of National Identity Card/Passport, PIN Certificates and valid Tax Compliance Certificates for all the Directors
- c) Sugarcane Farmers Organization Board Resolution authorizing the borrowing
- d) Certified copies of reports of Audited Accounts of the organization for the preceding three financial years
- e) Copies of acceptable security
- f) List of all the institution's fixed and movable assets as well as a recent valuation report of the said assets from the Board's approved valuers
- g) Register of members
- h) The management Structure of the organization and CVs of top management
- i) Copies of the institution's latest annual returns duly filed with the Registrar of Companies and a copy of the receipt that paid for the filing of the returns
- j) Certified copies of Bank/Sacco/Mobile money statements for the preceding twelve (12) months

5.1.3 REQUIREMENTS FOR MILLERS

Millers shall access the loan facility at a lending rate of **4%** per annum. The following are the requirements for millers to access a loan facility from the Fund:

- a) A valid Mill Operating License
- b) Shall be up-to-date with Sugar Development Levy remittances

- c) Miller's Board Resolution authorizing the borrowing
- d) Certified copies of reports of Audited Accounts of the institution for the preceding three financial years
- e) A letter from a bank indicating that they will provide a bank guarantee
- f) Sugar production data for the preceding three years
- g) Relevant duly executed contracts where applicable
- h) Copies of the institution's latest annual returns duly filed with the Registrar of Companies and a copy of the receipt that paid for the filing of the returns
- i) Certified copies of Bank statements for the preceding six (6) months.

5.2 PROCEDURES FOR ACCESSING CANE DEVELOPMENT AND PRODUCTIVITY ENHANCEMENT LOANS

This facility shall provide funds for cane development, maintenance and other cane productivity enhancement activities. The loan facility is offered to sugarcane growers, millers and sugarcane farmers organizations.

5.2.1 Terms and Conditions

- a) The land shall be a minimum of one (1) hectare
- b) The repayment period shall be within sixty (60) months
- c) For leased land, the land must be in a block with a signed lease agreement of a period of not less than 60 months witnessed by an advocate of the High Court of Kenya
- d) The land title must be free of any encumbrances
- e) The applicant shall contribute an equivalent of 10% of the total project cost as own commitment
- f) Provide securities acceptable to the Board
- g) The borrowers shall submit all the loan requirements before the loan appraisal is undertaken
- h) Millers shall provide a list of potential beneficiaries for cane development and maintenance
- i) Millers shall have a valid contract with the respective grower/ outgrower institution
- j) For loans advanced for the purchase of farm machinery, the machinery shall be registered in the name of the borrower and the Board, and be

comprehensively insured with the Board's interest endorsed therein until the loan is fully repaid.

5.2.2 Loan Repayment Period

- a) Loans advanced for cane establishment shall be repaid on the basis of 40% recovery on the plant crop, 30% recovery on the first ratoon and 30% on the second ratoon, for a maximum period of sixty (60) months. Borrowers are at liberty to make early repayment;
- b) Loans advanced for cane maintenance shall be repaid within eighteen (18) months;
- c) Loan advanced for seedcane establishment shall be repaid within twelve (12) months;
- d) Loans advanced for water development and Irrigation shall be repaid within sixty (60) months;
- e) Loans advanced for new farm machinery shall be repaid within a period of sixty (60) months while those advanced for refurbishment of farm machinery shall be repaid within a period of forty-eight (48) months.
- f) Any late repayment shall attract a penalty of 1% per annum on the outstanding balance.

5.2.3 Loan Application Process

- a) All cane development and productivity enhancement loans shall be applied for, not less than 3 months to the projected date of utilization. The three (3) months will allow for loan assessment and approval by the Board.
- b) The Loan applicant after meeting the eligibility criteria mentioned earlier, shall submit a loan application letter accompanied with a fully filled loan application Form *KSB/SDF/LN.01* attaching all the relevant documents as detailed in the form.

5.2.4 Loan Appraisal Process

Based on the information and documents submitted by the applicant, the SDF Directorate in conjunction with the relevant Technical Directorates shall:

- a) Verify and evaluate the loan application documents as submitted by the borrower.
- b) Undertake a physical verification and evaluation to determine the viability of the project as per the checklist of requirements

- c) Complete the loan appraisal Form *KSB/SDF/LN.02*
- d) The appraisal team shall prepare a detailed loan appraisal report based on the evaluation and credit scoring results including their recommendations to the SDF Board Committee
- e) If the application is declined/deferred, the applicant shall be notified in writing citing reasons for the decision within seven (7) days from the date of the SDF Board Committee meeting;
- f) If the application is approved, a letter of offer shall be issued within seven (7) days from the date of the SDF Board Committee meeting
- g) If the application is declined, the applicant may appeal to the Board within fourteen (14) days from the date of the letter.

5.2.5 Loan Approval Process

If the application is approved by the SDF Board Committee, the following shall be undertaken:

- a) A Letter of Offer shall be prepared and issued detailing terms and conditions of the loan through Form *KSB/SDF/LN.03*.
- b) The applicant shall accept the Offer by signing and returning the Letter of Acceptance to the Board. The Letter of Offer shall be accompanied by a proof of payment of 1.5% of the approved loan amount, being the appraisal fee.
- c) The applicant shall upload a signed Letter of Offer within thirty (30) days from the date of offer, failure to which the loan offer shall lapse.
- d) The Board shall commence the disbursement process upon receipt of the signed Letter of Offer and perfection of the loan security.

5.2.6 Disbursement Process

- a) Loan disbursements shall be done as per the approved schedule once the applicant has fully met all the conditions and requirements as stipulated in the Letter of Offer.
- b) The Board shall notify the applicant in writing, of the disbursement
- c) All pending requests for disbursement of subsequent tranches shall be done after a post-disbursement monitoring and a report forwarded to the CEO for consideration.
- d) Applicants will be communicated to in writing, on approved or declined disbursement of the subsequent tranche(s).
- e) In cases where the loanee requests the Board to pay their supplier directly, such a request shall be received in writing and shall be subject to verification and approval by the Board.

5.2.7 Loan Repayment

- a) The repayment shall be applied by recovering at a minimum of 40% from the plant crop; at a minimum of 30% from the first ratoon and at a minimum of 30% from the second ratoon for a maximum period of sixty(60) months
- b) Accrual of interest on loans shall be governed by the induplum rule. Upon repayment, the accrued interest shall be recovered first, and the balance applied towards the principal.
- c) Loan repayments and applicable lending rates shall be as specified in the Letter of Offer.

5.2.8 Loan Monitoring and Evaluation

- a) Projects funded through the SDF will be subject to periodic and ad-hoc monitoring by a multi-disciplinary team as outlined in Form KSB/SDF/LN.04.
- b) Every disbursement will be monitored and evaluated to ensure it is utilized for the intended purpose, before the next disbursement is released.
- c) In the case of Millers and Sugarcane Farmers' Organizations, the loanee shall provide quarterly loan status reports in the prescribed Form KSB/SDF/SR.1 and any other performance reports to the Board to ensure that the funds are being utilized as intended.
- d) The loan status reports will be reviewed by the SDF Directorate with the appropriate recommendations made to the SDF Board Committee.
- e) The SDF Board Committee shall recommend to the Board to terminate further disbursements subject to the outcome of the monitoring and status reports.
- f) The Board shall have the discretion to terminate further disbursements.

5.3 PROCEDURES FOR ACCESSING FACTORY DEVELOPMENT AND REHABILITATION LOANS

This product shall provide funds for the maintenance and improvement of the production capacity and efficiency of the factories in the sugar industry. The following are the procedures for accessing factory development and rehabilitation loans:

5.3.1 Terms and Conditions

- a) Upon successful application and approval, the Board shall subject to availability of funds, provide funding of up to a maximum of 90% of the project cost;
- b) A minimum of 10% of the total project cost shall be met by the applicant as own commitment. The applicant shall for that purpose submit evidence of this financial commitment to the Board;
- c) The borrower shall provide bank guarantee to cover the principal and interest;
- d) The borrower shall submit all the loan requirements before loan appraisal is undertaken

5.3.2 Loan Repayment Period

Loans advanced for factory development and rehabilitation shall be repaid on a monthly basis within a period of twenty-four (24) months. The loans advanced shall have a grace period of three (3) months after disbursement of the last tranche.

5.3.3 Loan Application Process

- a) All factory rehabilitation loans shall be applied for, not less than 3 months to the projected date of utilization.
- b) The Loan applicant after meeting the eligibility criteria mentioned earlier, shall submit a loan application letter accompanied with a fully filled loan application Form KSB/SDF/LN.01 attaching all the relevant documents as detailed in the form.
- c) The applicant shall specify what the factory intends to achieve by undertaking the intended works, provide an overview of the current factory performance giving specifics of machinery to be rehabilitated and impact on production.

5.3.4 Loan Appraisal Process

The appraisal process will draw from a credit scoring system based on the likelihood and impact of the risk elements on the various requirements and components of the application. The appraisal process shall entail the following:

- a) The Board shall establish the viability of the project as per the checklist in Form KSB/SDF/LN.02

- b) The Board and the Industry Technical team shall prepare a detailed appraisal report based on the evaluation which shall include project viability, assessment of risks, the cost-benefit analysis associated with the project, and an evaluation of the potential impacts of the project on the industry and local communities.
- c) The information provided in the loan application letter may be compared with the weekly and monthly factory data submitted by the industry team.
- d) A physical verification of the itemized budget will be undertaken by the appraisal team to identify any variances between the information submitted and the actual situation on site;
- e) If the application is declined/deferred, the applicant shall be notified in writing citing reasons for the decision within seven (7) days from the date of the SDF Board Committee meeting;
- f) If the application is approved, a letter of offer shall be issued within seven (7) days from the date of the SDF Board Committee meeting
- g) If the application is declined, the applicant may appeal to the Board within fourteen (14) days from the date of the letter.

5.3.5 Loan Approval Process

If the application is approved by the Board, the following shall be undertaken:

- a) A Letter of Offer shall be prepared and issued detailing terms and conditions of the loan through Form KSB/SDF/LN.03.
- b) The applicant shall accept the Offer by signing and returning the Letter of Acceptance to the Board. The Letter of Offer shall be accompanied by a proof of payment of 1.5% of the approved loan amount, being the appraisal fee.
- c) The applicant shall return the signed Letter of Offer within thirty (30) days from the date of offer, failure to which the loan offer shall lapse.
- d) The Board shall commence the disbursement process upon receipt of the signed Letter of Offer and perfection of the loan security.

5.3.6 Disbursement Process

- a) Loan disbursements shall be done as per the approved schedule once the applicant has fully met all the conditions and requirements as stipulated in the Letter of Offer.
- b) The Board shall notify the applicant in writing, of the disbursement

- c) All pending requests for disbursement of subsequent tranches shall be done after a post-disbursement monitoring and a report forwarded to the CEO for consideration.
- d) Applicants will be communicated to in writing, on approved or declined disbursement of the subsequent tranche(s).
- e) In cases where the loanee requests the Board to pay their supplier directly, such a request shall be made in writing and be subject to verification and approval by the Board.

5.3.7 Loan Repayment

- a) The repayment shall commence after a grace period of three (3) months on a monthly basis for a period of twenty-four (24) months. The facility will attract a lending rate of 5% per annum. Interest will accrue on the draw down date.
- b) Accrual of interest on loans shall be governed by the in duplum rule. Upon repayment, the accrued interest shall be recovered first and the balance applied towards the principal.
- c) Loan repayments and applicable lending rates shall be as specified in the Letter of Offer.

5.3.8 Loan Monitoring and Evaluation

- a) Projects funded through SDF loans will be subject to periodic and ad-hoc monitoring by a multi-disciplinary team as outlined in Form KSB/SDF/LN.04.
- b) Every disbursement will be monitored and evaluated to ensure that it is utilized for the intended purpose, before the next disbursement is released.
- c) The loanee shall provide quarterly loan status reports in the prescribed Form KSB/SDF/SR.1 and any other performance reports to the Board to ensure that the funds are being utilized as intended.
- d) The monitoring and loan status reports will be reviewed by the SDF Directorate with appropriate recommendations to the SDF Board Committee.
- e) The SDF Board Committee shall recommend to the Board to terminate further disbursements subject to the outcome of the monitoring and status reports.
- f) The Board shall have the discretion to terminate further disbursements.

CHAPTER 6

PROCEDURES FOR SUGAR DEVELOPMENT FUND GRANTS

6.1 Grants for Infrastructural Development and Maintenance

The Infrastructural development and maintenance funds will be issued as grants to fund infrastructure projects in sugar cane producing regions. These projects shall have broader industry benefits which cannot under normal circumstances be undertaken by one individual stakeholder due to the associated risks and cost.

6.1.1 Allocation grants criteria

- a) The funds shall be allocated on pro-rata basis based on production capacity per catchment area.
- b) The SDF Directorate shall determine the production capacity based on the Kenya Sugar Board Year Book of Sugar Statistics production data and propose the grant allocation per catchment area to the SDF Board Committee.
- c) The SDF Board Committee shall consider the proposal and recommend to the Board for adoption.

6.1.2 Eligible applicant for the Infrastructural Development and Maintenance grants

- a) Sugarcane farmers' organizations
- b) Millers

6.1.3 Terms and Conditions

- a) The project shall be a public good project with broad industry benefit
- b) Procurements shall be in line with the Public Procurement and Asset Disposal Act, 2015
- c) The appraisal of the projects shall be in collaboration with other Government agencies and industry stakeholders
- d) All funded infrastructure machinery and equipment shall be comprehensively insured by the beneficiary to mitigate against adverse risk effects

- e) The grant applicant shall enter into a signed agreement with the Board indicating the terms and conditions for equipment/machinery utilization prior to disbursement
- f) The applicant shall accept by signing and returning the Letter of Offer to the Board. The Board shall charge an appraisal fee of 1.5% on the Grant Component

6.1.4 Grant Application Process

All Industry infrastructural development and maintenance grants shall be applied three (3) months prior to the projected date of utilization and implementation. The application shall include the following:

- a) A detailed proof of concept indicating the exact purpose of the grant
- b) The Key objectives and expected outcomes to be achieved by undertaking the proposed works
- c) The program for implementation of these works
- d) The project Risk Management Framework
- e) The project sustainability plan

Documents to accompany the grant application shall include:

- a) An itemized budget of the verifiable works to be undertaken, and/or equipment to be procured.
- b) For Infrastructure Grants relating to the construction and maintenance of roads, bridges and culverts, an overall needs assessment report shall be submitted. The report shall contain the following details:
 - i. The proposed project area and location
 - ii. An up-to-date register and maps of the roads around the proposed project area
 - iii. A schedule of maintenance activities to be undertaken
- c) A detailed justification of the works and where applicable a feasibility study of the envisaged project
- d) A resolution of the Board of the applying institution authorizing the company to make an application for the grant.
- e) Where an applicant fails to fulfil these conditions within ninety (90) days, the application will be deemed to have lapsed and the Board will be appraised of the status.

6.1.5 Appraisal Process

The appraisal process shall be based on the assessment of the needs of the sugarcane production regions. The Board in collaboration with other relevant Government Agencies shall appraise the application based on the following:

- a) For applications for roads grants, the evaluation will be made based on an updated register and maps of all the roads within the catchment area, and the schedule of maintenance activities to be undertaken. Consideration will be made of the status of existing equipment, the condition of the road and the necessary requirements for development or maintenance.
- b) The appraisal team will conduct a physical assessment to verify and validate the itemized budget submitted in the application.
- c) The appraisal report will be presented to the SDF Board Committee for consideration and Board's approval.
- d) If the application is declined/deferred, the applicant shall be notified in writing citing reasons for the decision within seven (7) days from the date of the SDF Board Committee meeting;
- e) If the application is approved, a letter of offer shall be issued within seven (7) days from the date of the SDF Board Committee meeting
- f) If the application is declined, the applicant may appeal to the Board within fourteen (14) days from the date of the letter.

6.1.6 Grant Approval Process

- a) A letter of offer shall be issued, detailing the terms and conditions of the grant through Form KSB/SDF/GT.03.
- b) Where the applicant accepts the terms and conditions of the offer, they shall accept by signing and returning to the Board.
- c) Where the Letter of Offer is not returned within thirty (30) days from the date of offer then the offer will be considered to have lapsed.
- d) Applicants shall fulfil the conditions set out in the Letter of Offer within ninety (90) days from the date of accepting the offer, failure to which the grant shall be considered to have lapsed.
- e) Once the Board approves a funding request, the Board shall appoint an ad-hoc project implementation committee comprising of representatives from the following;
 - i. Kenya Sugar Board (KSB);

- ii. Kenya Rural Roads Authority (KeRRA);
- iii. County Governments;
- iv. Miller;
- v. Sugarcane Farmer Organizations;
- vi. Local administration.

The Committee shall oversee the procurement and implementation of the project;

- f) The Committee shall ensure that the procurement is in line with the provisions of the Public Procurement and Asset Disposal Act, 2015.

6.1.7 The Disbursement Process

- a) The applicant shall meet all the conditions and requirements stipulated in the Letter of Offer, prior to any disbursement of the approved grant
- b) Disbursement shall be executed based on the Board's recommendations and approval
- c) The Board shall notify the applicant on the disbursed amount, the purpose and the outstanding amount in case of tranche payments
- d) Subsequent tranches shall be disbursed after a positive post-disbursement Monitoring and Evaluation report has been submitted and approved by the Board,
- e) Applicants shall be notified on the decision on tranche disbursements
- f) All payments shall be made directly to the service provider as per the agreed payment schedules

6.1.8 Grant Monitoring and Evaluation

- a) The SDF funded projects shall be subject to periodic and ad-hoc monitoring by a multi-disciplinary team as outlined in Form KSB/SDF/GT.04
- b) The beneficiary shall provide periodic status reports and any other performance reports to the Board to ensure that the funds are being utilized as intended
- c) The monitoring and status reports will be reviewed and recommendations made to the Board;
- d) The Board shall have the discretion to terminate further disbursements subject to the outcome of the monitoring and status reports

- e) SDF funded machinery and equipment shall be properly serviced and maintained as per the manufacturer's specifications;
- f) The machinery and equipment shall be utilized for the public good of the catchment area as shall be specified in the agreement between the grantor and grantee.
- g) Upon completion of the project, the implementing ad-hoc project committee in collaboration with the monitoring team shall prepare a detailed report of the project including its potential impact, with recommendations and submit to the Board;

6.1.9 Publicity

In order to publicize the role of the Board in infrastructural development in the sugarcane catchment areas, all roads and other infrastructure projects funded through the SDF shall have prominent on-site signage indicating the funding agency.

6.2 PROCEDURES FOR ACCESSING GRANTS FOR SUGARCANE FARMERS ORGANIZATION

Grants for registered sugarcane farmers' organizations shall be issued for purposes of Advocacy of sugar crop farmers' rights, building capacity in corporate governance, digitalization of farmer records and business processes, capacity building in Good Agricultural Practices (GAPs), and any other functions as may be determined by the Board from time to time.

6.2.1 General Requirements

In order to access the SDF grant facility, an applicant shall:

- a) Abide by the Industry Regulations, Guidelines and Standards
- b) Submit a duly filled application form accompanied with a grant proposal
- c) Submit a copy of their KRA - PIN Certificate
- d) Submit a valid Tax Compliance Certificate
- e) Submit a valid CR 12/CR 13 Form/By-Laws
- f) Submit a Credit Reference Bureau (CRB) Report
- g) Certified copies of reports of Audited Accounts of the organization for the preceding three financial years
- h) Register of a minimum of 100 sugar crop growers' members contracted to a miller within the catchment area

6.2.2 Terms and Conditions

The applicant shall:

- a) Be registered with the Board
- b) Submit a resolution of the institution's Board, approving the application for the grant
- c) Submit a proposal detailing the area where support is required
- d) Submit the management structure of the organization and CVs of top management
- e) Submit copies of the institution's latest annual returns duly filed with the Registrar of Companies and a copy of the receipt issued on payment for the filing of the returns
- f) Accept by signing and submitting the Letter of Offer to the Board. The Board shall charge an appraisal fee of 1.5% on the Sugarcane Farmers' Organizations Component.

6.2.3 Appraisal Process

The appraisal process shall be based on the assessment of the needs of the sugarcane farmers' organization. The Board shall appraise the application based on the following:

- a) The appraisal team will conduct a physical assessment to verify and validate the itemized budget submitted in the application
- b) The appraisal report will be reviewed by the CEO with recommendations to the SDF Board Committee for consideration and recommend to the Board for approval.
- c) If the application is declined/deferred, the applicant shall be notified in writing citing reasons for the decision within seven (7) days from the date of the SDF Board Committee meeting;
- d) If the application is approved, a letter of offer shall be issued within seven (7) days from the date of the SDF Board Committee meeting
- e) If the application is declined, the applicant may appeal to the Board within fourteen (14) days from the date of the letter.

6.2.4 Grant Approval Process

- a) A Letter of Offer shall be prepared detailing the terms and conditions of the grant through Form KSB/SDF/GT.3
- b) Where the applicant accepts the terms of offer, they shall sign and return the Letter of Offer to the Board.

- c) Where the Letter of Offer is not returned within thirty (30) days, the offer shall be considered to have lapsed
- d) Applicants shall fulfil the conditions set out in the Letter of Offer within ninety (90) days from the date of the offer, failure to which the grant will be considered to have lapsed

6.2.5 Disbursement Process

- a) The applicant shall meet all the conditions and requirements as stipulated in the Letter of Offer, prior to any disbursement of the approved grant
- b) Disbursement shall be done based on the Board recommendations and approval
- c) The Board shall notify the applicant on the disbursed amount, purpose and the outstanding amount in case of tranche payment
- d) The Board shall disburse the grant in tranche(s) based on accountability and milestones achieved
- e) All pending requests for disbursement of subsequent tranches shall be done after a post-disbursement monitoring has been undertaken .
- f) The Board shall notify the applicant of the disbursement accordingly

CHAPTER 7

LOAN COLLATERAL DOCUMENTS

All funds advanced to projects through the Sugar Development Fund shall be secured. The Board through the Letter of Offer shall require that the borrowing party provides security prior to disbursement of the funds. The securities obtained should be perfected in all respects, namely:

- a) Adequately charged
- b) Adequately insured and the Board's interest duly noted
- c) The Valuation report shall be done by a registered valuer who is in the Board's approved panel.

The loan securing costs including valuation, conveyancing and land transfer fees shall be borne by the borrower. Below are securities acceptable to the Board:

7.1 Bank Guarantee

- a) A guarantee shall specify the amount (Principal and interest) guaranteed and the time frame of the guarantee shall be in line with the loan tenure;
- b) A guarantee shall not be varied without the involvement and consent of the guarantor;
- c) A guarantee shall only be from tier one and two banks as listed by the Central Bank of Kenya;
- d) Where a guarantee is given by more than one party, the parties' liability shall be joint and several;
- e) If a facility secured by a guarantee has been repaid and a new facility is agreed, a fresh guarantee shall be taken.

7.2 Legal Charge Over Land/Property

- a) Where land is given as security, there must be an authentic title available
- b) To properly secure the loan, a legal charge must be registered under the respective Land Act under which the title is issued. This can either be the Government Lands Act (Cap 280), The Land Titles Act (Cap 282), The Registration of Titles Act (Cap 281) or The Registered Land Act (Cap 300)
- c) The security has to be a first charge with the Board
- d) A charge on leasehold property shall have at least twenty (20) years to run

7.3. Hypothecation of the Sugarcane Crop

A charge is also available over cane by way of hypothecation. Loanees will be expected to produce a letter of hypothecation from a miller to whom the cane is contracted as collateral for standing cane.

7.4 Security Margin

The Board shall accept security margins on securities as indicated below:

No	SECURITY	MARGINS
a.	Bank Guarantees	100% guarantee
b.	Land title deed of developed land in Urban areas	60% of the forced value
c.	Land title deed of developed agricultural land in the rural areas	50% of the forced value
d.	Land title deed of undeveloped agricultural land in the rural or urban areas	40% of the forced value
e.	Hypothecation of Cane Crop	30% of the cane market value

Table 1: Security Margin

7.5 Registration of Security

The security must be registered appropriately to protect the Board's interest from any creditors and other parties that may wish to claim some interest directly or indirectly in the assets held as security.

7.6 Perfection of Security

A security shall be considered perfected after registration has been completed and the documents submitted to the Board.

7.7 Insurance

- a) All loans shall be insured against insurable risks at the expense of the borrower.
- b) All insurable assets taken as security shall be adequately insured against insurable risks pertinent to the particular type of security by the borrower. Insurable risk shall include but not limited to fire, theft, weather related calamities and pests and diseases.

CHAPTER 8

PROCEDURES FOR LOAN COLLECTION AND CREDIT MANAGEMENT

8.1 Loan Collection

The following will be the procedures for collection notices of SDF loans:

No.	Notices	Period	Procedure
a.	First reminder notice	Thirty (30) days	A reminder shall be issued thirty (30) days prior to the maturity of the loan
b.	Second reminder notice	Fifteen (15) days	Where payment is not received on the due date, a second written reminder shall be sent fifteen (15) days after the date of maturity of the loan
c.	1) Pre-Listing Notification 2) First demand notice	a) Ninety (90) days b) Forty (40) days	Where payment is not received following the lapse of the second reminder, a ninety (90) days pre-listing notification accompanied by a forty (40) days first demand notice shall be issued
d.	Second demand Notice	Thirty (30) days	Upon expiry of the first demand notice, a second thirty (30) days demand notice shall be issued
e.	Third and final demand notice	Twenty (20) days	On the lapse of the second demand letter, a twenty (20) days third and final demand notice shall be issued to the borrower

Table 2: Loan Collection Notice

In case of non-responsiveness after the above procedures have been undertaken, Management shall take the necessary action in accordance with the provisions of the Manual including liquidating the Bank guarantee and the standing sugar crop, auctioning the land. The Board shall be notified of the action taken by Management.

8.2 Loan Monitoring and Evaluation

The purpose of loan monitoring and evaluation is to:

- a) Identify potential problematic loans for corrective action to be taken on time
- b) Identify loanee challenges and propose mitigation measures
- c) Provide the borrowers with the necessary support services as need be
- d) Assess the adequacy and the condition of loan security

8.2.1 Monitoring Scope

a) Use of Loan Funds

- 1) The loan is utilized for the intended purpose
- 2) The financed project has been implemented as originally planned

b) Management of Venture

Assessment of project status to confirm the proper utilization of funds.

c) Repayment Ability

Determination of the borrower's repayment ability by determining whether:

- 1) Farm records provided by the borrower indicate surpluses consistent with the repayment amount
- 2) The borrower has other businesses or investments which either drain the farm income or constitute a source of income for loan payment
- 3) There is any verifiable evidence of expenditure by the borrower on capital items. If so, consider the source of funds for such capital expenditure and, if borrowed, how the loan is to be repaid and from which sources
- 4) There are other financial commitments entered into by the borrower during the tenure of the loan which may lead to delinquency in loan repayments
- 5) The borrower has definite repayment proposals and whether such proposals are likely to materialize in view of the information gathered

d) Natural Hazards

Establish if the borrower's operations have recently been hit by natural hazards that have rendered the borrower incapable of servicing the repayments.

8.2.2 Loan Diversion

Each loan is approved for a specific purpose hence, any use of funds by the borrower for purposes other than those specified in the original loan agreement is considered a diversion. Loan diversion shall be handled in one of the following ways:

- a) Communicate in writing to the borrower of any diversion and give the borrower a chance, within a specified time frame, to rectify the position by implementing the project as originally planned through injecting own

funds equivalent to what was diverted. Failure to comply to this provision will lead to account foreclosure.

- b) In the case of tranche disbursement, the outstanding loan amount shall not be released.

8.2.3 Loan Rescheduling and Restructuring

Rescheduling of a loan shall be based upon evidence of a steady cash flow to support repayments before any loan is rescheduled. Rescheduling will be effected by delaying the due date(s) for requisite payments, reducing the repayment amounts, extending the repayment period and/or increasing the number of repayment tranches. The following shall form the basic policy to reschedule and restructure a loan:

The decision to reschedule and restructure a loan will only be done once, by the Board, during the tenure of the loan except in cases of natural hazards.

- a) The discretion to reschedule the loan more than once shall rest with the SDF Board Committee.
- b) Once a loan has remained un-serviced for three (3) consecutive instalments after rescheduling and restructuring, it shall be deemed to have fallen into delinquency and the loan recovery procedures shall be instituted.

8.2.4 Credit Risk Control Procedures

- a) Credit risk control shall be an ongoing process to ensure that appropriate measures are consistently and promptly undertaken to avoid loan-related risks and to address any weakness in performance. The Board shall undertake a risk assessment of each loanee to identify potential risks in the loan applications. Based on this assessment, prompt and appropriate actions shall be taken in response to warning signs to avert or minimize risk and loss.
- b) The steps to be taken immediately a risk is detected:
 - i. Based on the interpretation of the warning sign(s), gather additional relevant information to gain a clear understanding of the situation.
 - ii. Assess the potential implications of the identified risk on the project or program, and its possible impact on the Fund.
 - iii. If there are indications of an impending credit issue, implement precautionary measures to control the situation and prevent deterioration of the account or potential loss.

- iv. Promptly investigate the nature and severity of the risk, and follow up quickly with an interview of the customer.
- v. Take appropriate corrective action.
- vi. Monitor the loan performance closely on an ongoing basis.
- c) Any deterioration detected in the borrowers' credit rating shall be recorded with recommendations on appropriate remedial measures to be adopted.
- d) If the borrower's risk position is such that the facility can no longer be sustained, the debt recovery process shall commence in accordance with the terms and conditions outlined in the Letter of Offer.
- e) In such circumstances, the following control procedures shall be undertaken:
 - i. Immediately inform the customer and initiate discussions
 - ii. Issue a notice in advance of a formal written demand
 - iii. Recall some or all of the loan facilities

8.2.5 Classification of debts

In determining the classification for loans and advances, performance will be the primary consideration as it will generally show the repayment capability of the borrowers. Provisioning of the outstanding loan balance shall be applied in reference to the International Public Sector Accounting Standards (IPSAS 19). All loans shall be classified into the categories below:

a) Performing (Good book)

- i. Normal (Grade 1)
- ii. Watch (Grade 2)

b) Non-performing (Bad book)

- i. Substandard (Grade 3)
- ii. Doubtful (Grade 4)
- iii. Loss (Grade 5)

1) Normal (Grade 1)

These are well documented facilities for financially sound customers where no weaknesses exist. These are loans that are performing in accordance with the contractual terms and are expected to continue doing so.

i) Performance: Term loan – up-to-date repayments

ii) Provisioning: A General provision of 1% is to be made on the outstanding loan balance

2) Watch (Grade 2)

These are generally sound accounts that would typically be classified as "normal." However, they exhibit specific weaknesses that may pose a higher risk than when the loan or facility was originally granted, thereby warranting management attention. Examples of such weaknesses include the deteriorating condition or control of collateral, worsening economic conditions, or adverse trends in the borrower's financial position. If not addressed, these issues could compromise the borrower's repayment capacity, increasing the overall risk of the loan.

i) Performance For Term Loans:

<u>Mode of payment</u>	<u>Installments in Arrears</u>
Monthly	Less than 3 months not paid
Annually	1 (not paid within 3 months)
At eighteen months (One off)	1 (not paid within 3 months)
At twenty-four months (One off)	1 (not paid within 3 months)

ii) Provisioning

A General provision of 5% is to be made on the outstanding loan balance.

3) Sub-Standard (Grade 3)

These are facilities that, although still operational, involve a heightened degree of risk and present the possibility of future loss unless closely supervised and supported by corrective action to strengthen the Fund's position. Potential losses in these accounts may arise from managerial, economic, political, or other systemic weaknesses. In such cases, the primary sources of repayment may be insufficient to service the debt. As a result, the Board may need to rely on secondary sources such as collateral, the sale of fixed assets, refinancing, or additional capital injections to recover the loan. Prompt corrective measures are essential to improve the Fund's risk position, reduce exposure, and ensure that adequate remedial actions are implemented.

Performance For Term Loans:

<u>Mode of payment</u>	<u>Installments in Arrears</u>
Monthly	Less than 3 to 6 months not paid
Annually	1 (not paid within 6 months)
At eighteen months (One off)	1 (not paid within 6 months)
At twenty-four months (One off)	1 (not paid within 6 months)

Provisioning

A General provision of 20% is to be made on the outstanding loan balance.

4) Doubtful (Grade 4)

These are advances where significant weaknesses are evident, and full repayment appears doubtful based on available information, indicating a potential loss, even though the exact amount cannot be reliably determined. While the likelihood of loss is high, the presence of important and reasonably specific pending mitigating factors prevents a definitive assessment of the loss at this stage. Substantial remedial efforts are required to avert or minimize the loss. A loan or advance that is past due may still be classified as "doubtful" if it is backed by realizable security and/or is in the process of recovery, whether through normal collection efforts, legal action, or other means expected to result in repayment.

i) Performance For Term loans:

<u>Mode of payment</u>	<u>Installments in Arrears</u>
Monthly	Over 6 but less than 12 months
Annually	1 (not paid within 9 months)
At eighteen months (One off)	1 (not paid within 9 months)
At twenty-four months (One off)	1 (not paid within 9 months)

ii) Provisioning

The interest accruing to be suspended five years after the due date. 100% specific provision will be made, calculated based on the loan outstanding amount less realizable value of the securities, less provisions already made and any interest suspended.

5) Loss (Grade 5)

This category includes all facilities with outstanding arrears that are considered uncollectible. It applies where the security is either worthless or has been disposed of, and the proceeds have not fully covered the debt, with the remaining balance deemed unlikely to be recovered. Losses shall be recognized in the period in which they are identified.

i) Performance For Term loans:

<u>Mode of payment</u>	<u>Installments in Arrears</u>
Monthly	12 or more instalments not paid
Annual	1 (not paid within 12 months)
At eighteen months (one off)	1 (not paid within 12 months)
At twenty-four months (one off)	1 (not paid within 12 months)

ii) Provisioning

The interest accruing to be suspended five years after the due date. 100% specific provision will be made, calculated based on the loan outstanding less realizable value of the securities, less provisions already made and any interest suspended. Grading of accounts should be reviewed annually.

Caution should be exercised in the grading of accounts as this has implications on the Fund's profitability through provisions and interest charges. For all accounts requiring provisioning, the SDF Directorate shall submit a report on a case by case basis, to the SDF Board Committee for further guidance and recommendation. The provisioning shall then be effected upon approval of the Board.

iii) Grading Table

	Normal	Watch	Substandard	Doubtful	Loss
Grade	1	2	3	4	5
Provision	1%	5%	20%	100%	100%
Instalment					
Monthly	Up to date repayments	Less than 3 instalments not paid	Over 3 - 6 instalments not paid	Over 6 - 12 instalments not paid	12 or more instalments not paid
Annual	Up to date repayments	Instalments not paid (within 3 months)	Instalments not paid (within 6 months)	Instalments not paid (within 9 months)	Instalments not paid (within 12 months)
18 Months (One off)	Up to date repayments	Instalments not paid (within 3 months)	Instalments not paid (within 6 months)	Instalments not paid (within 9 months)	Instalments not paid (within 12 months)
24 Months (One off)	Up to date repayments	Instalments not paid (within 3 months)	Instalments not paid (within 6 months)	Instalments not paid (within 9 months)	Instalments not paid (within 12 months)

Table 3: Grading Table on Classification of Debts