

PROJECT DESCRIPTION
MOSELMACH QUALITY FEEDS PRODUCTION AND MARKETING
TANZANIA

I. Introduction

This appendix describes the activities to be undertaken and the results to be achieved with the funds obligated under this Agreement. Nothing in this Appendix A shall be construed as amending any of the definitions, conditions, or terms of the Agreement.

II. Background

Moselmach Tanzania Limited is a privately owned animal feeds production company that produces high quality locally produced animal feed. The local market for animal feeds is growing rapidly, triggered in large part by the steadily increasing demand for dairy products, beef, bacon, eggs, and chicken. With a 45-50 percent capacity utilization, Moselmach is unable to capture a significant portion of this market. As a first step to seizing the opportunity presented by this lucrative market, Moselmach applied for and received an ADF Operational Assistance Grant (OAG) that enabled the Company to build its management and technical capacity and develop an expansion strategy. Moselmach is now poised to implement its new strategy.

III. Funding

A. ADF Contribution

The financial plan for ADF's contribution is set forth in Appendix A-1 to this Agreement. The Parties may make changes to the financial plan without formal amendment, if such changes are made in accordance with Article 7 of the Agreement and do not cause ADF's contribution to exceed the obligated amount specified in Article 4, section 4.1 of the Agreement.

B. Client Contribution

Moselmach will contribute 15 percent of the overall investment requirement, which is the equivalent of Tanzania Shillings (TZS) 49,705,000 million in the form of equity capital and retained earnings.

IV. Project Goal

The goal of the Project is to improve the standard of living for residents of the Bagamoyo, Ilala, and Pwani regions of Tanzania where Moselmach's employees reside.

V. Project Purpose

The main purpose of the project is to increase the incomes of Moselmach, its employees, and the local farmers who supply Moselmach its raw materials.

- A. Moselmach's net income before tax and depreciation will increase from the current baseline of TZS 14,929,119 to:
1. 2,874,093 TZS in Year I;
 2. 1,570,995 TZS in Year II;
 3. 15,483,985 TZS in Year III;
 4. 40,174,444 TZS in Year IV; and
 5. 77,442,602 TZS in Year V.
- B. The total value of salaries paid to employees will increase from a baseline of TZS 52,430,000 to:
1. 72,723,300 TZS in Year I;
 2. 81,053,931 TZS in Year II;
 3. 86,727,706 TZS in Year III;
 4. 92,798,646 TZS in Year IV; and
 5. 99,294,551 TZS in Year V.
- C. Purchases of raw materials from local farmers will increase from the current baseline of TZS 421,203,231 to:
1. 447,272,471 TZS in Year I;
 2. 506,543,133 TZS in Year II;
 3. 596,206,227 TZS in Year III;
 4. 733,706,797 TZS in Year IV; and
 5. 917,700,699 TZS in Year V.

VI. Outputs

The major output of the investment will be to increase Moselmach's capacity to produce high quality animal feeds that capture a growing Tanzanian market, as evidenced by the following indicators:

- A. Moselmach's sales revenue will increase from the current baseline of TZS 456,437,417 to:
1. 560,600,000 TZS in Year I;
 2. 634,242,500 TZS in Year II;
 3. 746,554,943 TZS in Year III;
 4. 918,696,497 TZS in Year IV; and
 5. 1,149,069,998 TZS in Year V.

- B. Moselmach's annual production volume will change from the current baseline 1,928 tons to:
1. 2,024 Tons in Year I;
 2. 2,126 Tons in Year II;
 3. 2,338 Tons in Year III;
 4. 2,572 Tons in Year IV; and
 5. 2,829 Tons in Year V.
- C. Moselmach will improve its plant capacity utilization from 45-50 percent at the beginning of the Project of 60 percent by the end of Project Year I and thereafter.

VII. Activities

A. Production

Moselmach's low rate of capacity utilization is mainly a result of lack of financing for raw materials inputs and inefficient processing equipment. To address the materials problem, Moselmach will undertake the following activities: (1) establish raw material inputs revolving fund that will enable the Company to purchase two months' of stock at a time; (2) purchase and haul raw materials from remote rural farmers in the up-country regions of Shinyanga, Iringa, Mbeya, Mwanza, and other regions of Tanzania (3) construct a raw material warehouse in Morogoro to store stock; and (4) develop a supply chain strategy that includes closer links to the poor farmers growing important raw materials such as maize, sorghum, millet, and soy. To address the equipment problem, Moselmach will replace its outdated machines with a modern feed mixer, grain cleaner, and blending machine.

B. Marketing and Product Promotion

Moselmach will undertake several activities to expand its market. The Company will hire a specialist in feed formula and animal nutrition, quality control, and market compliance. The specialist will train production staff on feed formulation, quality control, and market sensitization. Moselmach will train all staff on customer satisfaction methods and techniques.

C. Management Improvement

Moselmach's key personnel and managers will attend capacity building classes that emphasize attitude and organizational transformation from a volume driven business model to market driven business model.

VIII. Roles and Responsibilities of the Parties

The managing director, production staff, and distribution and marketing personnel of Moselmach have primary responsibility for the implementation of the Project's activities as planned. The ADF Partner in Tanzania will monitor closely the Company's attainment

of established production and training milestones. In addition, the ADF Partner will provide Moselmach with technical and management assistance during implementation.

IX. Monitoring and Evaluation

Within sixty days of the effective date of this Agreement, the Client, working with the ADF Partner, will form a monitoring and assessment committee composed of a representative cross-section of the Client's organization. The committee will provide the Partner input for the Project monitoring plan. In addition, during implementation, the committee will have responsibility for ensuring that the Project follows the implementation plan, and that problems identified through monitoring and evaluation are properly addressed in a timely manner.