

APPENDIX A
PROJECT DESCRIPTION
OUTSPAN ENTERPRISES: UGANDA

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

Outspan Enterprises Limited (OEL) has been able to develop an export market for locally grown sesame seeds and birds-eye chilies. OEL has trained 4,537 farmers how to obtain organic certification for sesame and chilies production. At the same time, they have a growing market of willing purchasers in Europe for their produce. OEL's objective is to expand the outgrowers' production of sesame seeds and chilies to meet European demand in order to increase income for OEL, its outgrowers and its employees. However, obstacles include a shortage of working capital to purchase farmers' produce, an outdated production facility requiring capacity improvements, and a lack of management capacity to carry out marketing and production plans.

III. Funding

A. ADF's 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 3, Section 1 of the Agreement.

B. Grantee Contribution

The Grantee, Outspan Enterprises Limited, will allocate a total of Ush 120 million of its own working capital towards this project. Of the USh 120 million, Ush 100 million in cash will go to the working capital fund from which crop purchases will be financed and to which capital and profit will be reinvested from its export business. Also, the Grantee will contribute Ush 140 million from a bank loan taken out for working capital purposes. The Grantee will also fund a total of Ush 2 million for Pastel software training and a total of Ush 18 million for new management personnel (a general manager, an export/marketing officer, and an assistant field supervisor) in the first year. Starting in year 2 through year 5 the Grantee will cover the full cost of the new personnel amounting to Ush 36 million per year (plus annual increases) for a total of USh 162 million (plus any annual salary increases). The Grantee will bear all other costs related to this project not specifically identified as contributed by ADF.

IV. Project Goal

The goal of this project is to increase incomes and living standards and reduce poverty of the farmers in the Kaberamaido, Apac and Lira areas of Northern Uganda.

V. Project Purpose

The purpose of the Project is to increase the income of local agricultural supplier groups, OEL and its workers.

A. Increase average gross incomes of sesame farmers as follows:

- Year 1: Ush 330,000
- Year 2: Ush 373,450
- Year 3: Ush 455,396
- Year 4: Ush 546,645
- Year 5: Ush 648,080

B. Increase average gross incomes of chili farmers as follows:

- Year 1: Ush 1,400,000
- Year 2: Ush 1,536,000
- Year 3: Ush 1,639,000
- Year 4: Ush 1,749,000
- Year 5: Ush 1,866,000

C. Increase OEL net income as follows:

- Year 1: Ush (21,736,000)
- Year 2: Ush 25,332,000
- Year 3: Ush 37,614,000
- Year 4: Ush 62,438,000
- Year 5: Ush 90,495,000

D. Increase OEL employees' total incomes (payroll) as follows

- Year 1: Ush 115,500,000
- Year 2: Ush 123,260,000
- Year 3: Ush 131,518,000
- Year 4: Ush 140,330,000
- Year 5: Ush 149,732,000

VI. Project Outputs

A. Farmers capacity to grow exportable sesame seeds and birds-eye chilies increases as measured by the total income received by outgrowers (direct cost of goods sold):

- Year 1: Ush 536,181,000
- Year 2: Ush 692,850,000
- Year 3: Ush 811,518,000
- Year 4: Ush 995,773,000
- Year 5: Ush 1,221,864,000

B. OEL's management, marketing and production capacity increases

- OEL's revenue turnover:

- Year 1: Ush 746,100,000
- Year 2: Ush 948,023,000
- Year 3: Ush 1,092,000,000
- Year 4: Ush 1,319,000,000
- Year 5: Ush 1,593,000,000

- OEL will have procedural manuals in place after training and consultation with technical assistance providers.
- OEL will have an improved automated Pastel accounting system which will allow routine financial transaction processing and reporting.

C. OEL will have an improved and refurbished processing plant better able to process the planned export production volumes.

D. OEL extension services will be made more timely and prompt.

VII. Activities

A. Extension Services to Farmers

OEL will provide the following extension services to farmers to expand production and improve quality:

- OEL extension officers will be more timely and prompt with the addition of 6 motorcycles for routine monitoring and supervising of farmers' activities and training of farmers in organic farming methods;
- OEL will train and re-train selected farmers to maintain organic certification; and
- OEL will strengthen the extension service by hiring an assistant field supervisor to coordinate extension services.

B. Production Processing

OEL will improve and upgrade its production facility by refurbishing equipment, adding a heavy duty weighing scale, putting 2 carbon dioxide fumigation “bubbles” on the production line and installing new electrical fittings and wiring and a new generator.

C. Management and Systems

To strengthen its management, OEL will:

- hire a general manager, a marketing/export officer and an assistant field supervisor to strengthen deficits in management of finance, general administration, marketing and field supervision;
- hire technical assistance providers (TAP) to write accounting, financial, and operational procedure manuals on accounting and cash management, financial analysis, systems design and provide a review of OEL’s costing and pricing structure;
- competitively acquire a computer, printer, flash disk, computer stationary, office supplies and Pastel accounting software, and train appropriate OEL staff on its operation; and
- UDET will conduct financial, accounting, and business management training related to international trade and market development for appropriate OEL staff.

D. Training

- UDET will train appropriate OEL staff on ADF-mandated training in order that they comply with ADF procedures, policies, ADF funds disbursement procedures, accountability, and reporting.
- UDET will train appropriate OEL staff on Participatory Monitoring, and Evaluation.
- With UDET’s assistance OEL will conduct surveys of the organic farmer participants to establish baseline data in year 1 followed by an impact assessment survey in year 3.

VIII Roles and Responsibilities of the Parties

A. Management

OEL has the primary responsibility for ensuring that project activities are properly implemented. Within OEL, the Board of Directors will be the highest decision making body. It will determine strategies, policies, and the direction of the entire business. The Board has in place a Project Management Team led by the Managing Director that will supervise and coordinate implementation of the Project.

Pursuant to Article 10 of the Agreement, the Uganda Development Trust (UDET) will provide OEL technical assistance and advice during the implementation of the Project.

IX. Monitoring and Evaluation

Within sixty days of the effective date of this Agreement, the Grantee, working with Uganda Development Trust, will form a monitoring and assessment committee composed of a representative cross-section of the Grantee's organization. The committee will provide UDET 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.

X. Other Implementation Issues

- A. OEL will, in addition to its current accounts, establish two other bank accounts: (a) an account to receive the ADF funds; and (b) an operations account to manage the grant funds. OEL will use the operations account to receive regular deposits and expenses per the activities stipulated in the Grant Agreement. Only project related disbursements will be allowed from these accounts.
- B. OEL covenants that it will replenish, after payments are received, the working capital used for crop purchase activity by an amount equal to the "Cost of Goods Sold" plus the anticipated profit earned for each payment received from its buyers and that it will be done currently to prevent the crop purchase fund from depleting. OEL may use the difference between the Sales Revenue earned and the Cost of Goods Sold (plus anticipated profit) for working capital in general, or for expanding the export business, or increasing the crop purchase fund as it feels is necessary for the efficient running of its business.
- C. OEL will continue to extend and maintain the workers health medical facility to ensure a good level of health standards for all staff by providing a minimum of 5 percent of total personnel salaries towards this activity.
- D. OEL will share 5 percent of its profits from the organic project with the staff.