

APPENDIX A
PROJECT DESCRIPTION
Mpanga Growers Tea Factory Limited

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

In 1995, the Government of Uganda privatized its tea processing operations and sold the five tea factories it had been managing through its government-controlled company, Uganda Tea Growers Corporation.

One of the privatized tea factories, Mpanga Tea Growers Tea Factory Limited (MGTF), is owned by a group of tea growers who were mainly the smallholder farmers that supplied unprocessed tea leaves to the government's operation at that factory. As of December 31, 2006, 459 tea leaf growers held shares in MGTF. MGTF processes green tea leaves into high quality tea primarily for the export market and, to a lesser extent, the local Uganda market. The company owns four estates where it grows tea leaves for processing, and also purchases unprocessed leaves from 666 active out-growers (including the 459 shareholders/growers).

Although MGTF has demonstrated that it is profitable, the company needs assistance to improve its management and financial systems, streamline its processing operations, and establish a marketing function if it is to continue development of smallholder tea growers in the Kyenjojo and Kabarole Districts.

III. Funding

A. USADF Contribution

The financial plan for USADF'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 USADF'S contribution to exceed the obligated amount specified in Article 4, section 4.1 of the Agreement.

B. MGTF Contribution

MGTF is contributing the skills and time of its employees to the implementation of the Project. Specifically, MGTF will continue paying salaries and wages of its current staff who assist in Project activities and continue to meet all administrative and production costs (including insurance and banking, communication expenses, printing and stationery, motor vehicle running expenses, factory operation expenses) other than those Project inputs financed by USADF as specified in Appendix A-1 to this Agreement.

IV. Project Goal

The goal of the Project is to increase the income and participation of smallholder farmers in the high quality green-leaf tea industry in Uganda.

V. Project Purpose

The purpose of the project is to improve MGTF and its out-growers' prospects for economic development as indicated by the development of a comprehensive business plan that (1) USADF otherwise deems suitable for funding by a donor or other financial institution; and (2) which addresses how to increase the quantity and quality of tea leaves supplied by the out-growers, processed by MGTF, and sold domestically and for export.

VI. Project Outputs

A. Business Plan

A comprehensive business plan which includes the following elements:

- an analysis of current production levels for out-growers, and a plan to increase quantity and quality of tea leaves supplied by those smallholder out-growers;
- an analysis of MGTF's tea processing capacity, covering both current and projected levels of production;
- a productivity and cost-benefit analysis covering both existing and proposed clonal nursery;
- a comprehensive market analysis to cover both local and export markets;
- a marketing and distribution strategy that enables MGTF to expand and reach both their existing and new customers; and
- projected financial results that support any proposed investment(s) as evidenced by acceptable returns-on-investment.

B. Management Systems

A fully functional financial and management system that complies with USADF reporting requirements, and is consistent with internationally accepted standards, as demonstrated by:

- an integrated and well-structured internal control and accounting system which has enhanced automated accounting and financial features;
- a comprehensive accounting procedures manual;
- a comprehensive human resource manual with clear training plans, health and safety procedures and revised organizational structure among other components;
- reports and reporting formats in consonance with the company's management information system;
- a functioning company website with email accounts for all; and
- a working computer network system, with minimal system outages.

VII. Activities

MGTF will ensure the following activities are implemented, with the assistance of selected consultants where needed. MGTF also will ensure that all terms of reference for consultants are developed in collaboration with USADF.

A. Tea Leaf Processing Facilities

1. Capacity

- Review and evaluate the current production capacity from withering to packaging.
- Establish the required withering capacity for the current production lines and provide an additional production line of similar capacity as one of the existing ones.
- Propose appropriate withering design that is compatible with the technology in place in regards to factory layout.
- Evaluate projected leaf yield and required production capacity in view of the pending conversion to clonal tea.

2. Conversion Plan from Seedling to Clonal Tea

- Establish the productivity of the current planting materials and methods of Mpanga at both estates and farmers levels.
- Conduct a cost-benefit analysis of converting from seedling to clonal tea.
- Develop a plan for conversion that will address the manner and pattern of a phased or gradual conversion with minimum leaf yield disruption.
- Evaluate the efficacy of the current clonal nursery and its potential for future growth. Evaluate the cost-benefit analysis of Mpanga versus a contractor management of a clonal nursery.

B. Human Resource Management Systems

- Review and update the current Human Resources Manual.
- Review the current organizational structure and re-align tasks and job descriptions.
- Conduct a skills audit for all staff.
- Conduct a Training Needs Assessment and develop a training plan.
- Establish the level of compliance of all statutory requirements and suggest a follow up plan to ensure full compliance.
- Ensure that the work environment is safe and healthy to all employees.

C. Governance

- Evaluate the current governance status of the company in terms of statutory requirements and develop plans for complying with all such requirements.
- Provide orientation training to the Board of Directors regarding roles and responsibilities.

D. Management Systems

1. Financial and Management Systems

- Evaluate the current accounting skills in the department and propose mitigating measures.

- Acquire and install appropriate accounting software with all modules (general ledger, debtors' and suppliers' ledgers, inventory, manufacturing, multi-currency and payroll).
- Train accounting staff in use and management of computerized accounting systems.
- Integrate to a large extent leaf procurement, store management, wages, debtors and suppliers into the accounting system. Install a comprehensive (preparation and variance analysis) budgeting system.

2. Internet Connectivity Technology (ICT)

- Evaluate the scope and extent of the current ICT network highlighting connectivity and coverage issues.
- Propose an appropriate remedy to correct connectivity and coverage.
- Develop or improve a web page for the company.
- Train staff in ICT.

3. Smallholder Farmer Credit Arrangements

- Review and evaluate current credit practices.
- Conduct an analysis of the cost benefit to MGTF and its smallholder farmers of the credit practices.
- Evaluate the cost benefit analysis of Mpanga versus a contractor management.

4. Management of Out-Sourced Services/Activities

- Establish the baseline status for woodlots management, leaf transportation, and health clinic service.
- Conduct a cost benefit analysis for MGTF and its smallholder farmers for each of the above activities and services.
- Evaluate the cost benefit analysis of Mpanga versus outsourcing for each of the activities and services specified above.

E. Markets and Marketing

- Hire a highly trained and experienced marketing officer.
- Begin discussions on an increased quota of tea sales with Café Direct under the fair trade arrangement.
- Evaluate the current sales and marketing activities of the company. Develop and coordinate the development of a long term marketing plan.

F. Commission an Environmental Study

- Contract a registered environmental consultancy firm to conduct the study.
- Acquire Certificate of Environmental Compliance from the Government of Uganda.

VIII. Roles and Responsibilities of the Parties

USADF's partner in Uganda will provide the necessary standard USADF training in bookkeeping, monitoring and assessment. MGTF is responsible for ensuring the proper management and implementation of the Investment. The USADF Partner in Uganda will provide MGTF with technical and management assistance during implementation.

IX. Monitoring and Evaluation

USADF's Partner in Uganda will closely monitor the activities of MGTF to ensure proper reporting, adherence to the project implementation plan by the client and movement towards the achievement of project objectives. The Partner will continuously assess the project risk and take remedial actions as needed. Monitoring by the Partner will be an important aspect of the ongoing coaching and advisory service. The Partner will review USADF's quarterly reports and will submit comments and observations to the management of MGTF as a part of the on-going performance assessment.

Within sixty days of the effective date of this Agreement, MGTF, working with the USADF Partner, will form a monitoring and assessment committee composed of a representative cross-section of MGTF's organisation. 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 and reported in a timely manner.