

**PROJECT DESCRIPTION**  
**Kihihi Farmers Cooperative Society**  
**Rice Production Project (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**

The Kihhihi Farmers Cooperative Society (KFCS) is a Ugandan cooperative society owned by small-scale farmers in Kanungu District. Its members' current focus is on upland rice production and processing as a way to improve their incomes. Because KFCS does not have its own milling plant or machinery, farmers take their paddy rice to private millers in Kihhihi trading center. These small private mills produce low quality milled rice and do not have the capacity to handle the increasing production of paddy rice by the KFCS farmers.

**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. KFCS Contribution

KFCS will contribute Ugandan Shillings (UGX) 72,291,970 representing the net assets of the organization at the end of 2007. As part of its contribution, the Cooperative will procure and install a first aid box and a fire extinguisher within the factory premises and pay the salaries of the new staff for the remaining four years of the project. KFCS will also pay the cost of Uganda National Board of Standards (UNBS) certification and ongoing National Environmental Management Agency (NEMA) costs for environmental compliance.

**IV. Project Goal**

The goal of the project is to improve the standard of living and economic welfare of farmers in Kanungu District in Uganda.

## V. Project Purpose

The purpose of this project is to increase the income of KFCS farmer members and its employees as follows:

- A. KFCS's net income (before taxes and depreciation) will increase from the 0 in the Project's base year to:
  1. UGX 270,760,000 in Year 2;
  2. UGX 320,100,000 in Year 3;
  3. UGX 388,020,000 in Year 4; and
  4. UGX 434,430,000 in Year 5.
  
- B. The value of raw material (rice crops) purchased from the farmers will increase from UGX 652,418,000 in the Project's base year to:
  1. UGX 67,960,000 in Year 1 (1 month);
  2. UGX 740,800,000 in Year 2;
  3. UGX 958,000,000 in Year 3;
  4. UGX 1,208,400,000 In Year 4; and
  5. UGX 1,434,600,000 in Year 5.
  
- C. The value of annual salaries paid by KFCS will increase from zero in the Project's base year to:
  1. UGX 15,600,000 in Year 1;
  2. UGX 23,080,000 in Year 2;
  3. UGX 28,810,000 in Year 3;
  4. UGX 30,250,000 in Year 4; and
  5. UGX 31,770,000 in Year 5.

## VI. Outputs

By the end of the Project, the capacity of KFCS and its members to grow, process and market rice will increase, as evidenced by the following:

- A. Increase in the number of staff employed from the current four staff in the Project base year to:
  1. eight in Year 1 and Year 2; and
  2. nine in Year 3 to Year 5.
  
- B. Increase in KFCS's capacity to process high quality rice from zero in the Project base year to:
  1. 82,000 kilograms in Year 1 (one month);
  2. 898,000 kilograms in Year 2;
  3. 1,090,000 kilograms in Year 3;
  4. 1,300,000 kilograms in Year 4; and
  5. 1,460,000 kilograms in Year 5.
  
- C. Increase in the volume of paddy rice produced by farmer members from the current 872,800 kilograms in the Project base year to:
  1. 126,000 kilograms in Year 1 (one month);
  2. 1,380,000 kilograms in Year 2;

3. 1,680,000 kilograms in Year 3;
  4. 2,000,000 kilograms in Year 4; and
  5. 2,240,000 kilograms in Year 5.
- D. Increase in KCFS's total sales revenue from zero in the Project base year to:
1. UGX 97,800,000 in Year 1;
  2. UGX 1,066,000,000 in Year 2;
  3. UGX 1,353,000,000 in Year 3;
  4. UGX 1,675,000,000 in Year 4; and
  5. UGX 1,951,100,000 in Year 5.
- E. Increase in the number of cooperative members from the current 661 in the Project base year and Years 1 and 2 to:
1. 750 in Year 3;
  2. 850 in Year 4; and
  3. 900 in Year 5.
- F. Increase in the number of rice outgrowers from zero in the Project base year and Year 1 to:
1. 100 in Year 2;
  2. 200 in Year 3;
  3. 300 in Year 4; and
  4. 400 in Year 5.
- G. KFCS will strengthen its fiscal and social responsibility as demonstrated by its compliance with the Re-Investment Commitment (RIC) Schedule set forth in Appendix A-2 to this Agreement.

**VII. Activities**

A. Production and Operations

To enable KFCS to expand its rice production operations, the Cooperative will recruit a production officer and appoint the three production area leaders, one from each of the production zones. The Cooperative will hold meetings with the farmers to discuss production, purchase of paddy rice and rice quality issues and will work with the farmers to develop the required supply chain. KFCS will also order the milling equipment and work with the suppliers to have it installed and commissioned, train the production staff, purchase paddy rice and commence the rice milling trials. All these activities are expected to be undertaken during the first year of the project.

To supplement the KFCS's paddy rice production, the Cooperative will develop a strong outgrower scheme during the course of the project. KFCS will utilize its zonal leaders to train these outgrowers in rice agronomy and post-harvesting handling techniques to make sure that they meet KFCS's and the industry's minimum quality standards. These outgrowers may become members of KFCS if they fulfill the membership criteria.

**B. Finance and Administration**

To improve on its financial management, KFCS will, during the first three months of implementing this Project, purchase and install automated accounting software and train the staff in its use. KFCS will also receive training from the partner organization on ADF financial reporting systems as well as in participatory monitoring and evaluation. By the sixth month of the project, the financial assessment tool will be re-administered to ensure that the gaps identified at the project design stage have fully been addressed. To improve further on the internal systems, KFCS will develop an accounting manual as well as a human resource/administrative manual.

By the end of the first year, KFCS will develop a plan to collect outstanding loans made to farmer members under the previous ADF-funded silk production project. Additionally, the cooperative will sign a memorandum of understanding with Kihihi Development Cooperative Savings and Credit Society Ltd. (KIDEVO) for the provision of credit to the farmers. Currently seventy percent of KFCS members are also members of KIDEVO.

**C. Sales and Marketing**

KFCS will, with the assistance of an experienced technical service provider, train the General Manager in marketing and develop a marketing plan to guide in the implementation of marketing activities during the first two years of the project and before a marketing officer is recruited in the third year. KFCS will also develop and implement strategies for marketing its rice to schools, hospitals, wholesalers, and other distribution agents, including: brand design for packaging; drafting and signing customer agreements; and promotional activities in the media to advertise KFCS's brand of rice.

**D. Management and Governance**

KFCS will train senior management and board members on human resource management and corporate governance. It will also augment its staff resources by hiring a production officer, two machine operators, a cashier and an office attendant.

**VIII. Roles and Responsibilities of the Parties**

ADF's Partner, Uganda Development Trust (UDET), will provide the Grantee standard ADF training in bookkeeping, monitoring and assessment.

KFCS will be responsible for ensuring that there is proper management and implementation of the Project activities. The ADF Partner in Uganda, UDET, will provide KFCS with technical and management assistance during the implementation of the project.

**IX. Monitoring and Evaluation**

Within sixty (60) days of the effective date of this Agreement, KFCS, working with the ADF Partner, will form a monitoring and assessment committee composed of a representative cross-section of KFCS's organization. The committee will provide the Partner with the inputs 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**

Kihihi will purchase paddy rice directly from its members at three existing collection centers so the farmers will incur neither transport costs nor milling charges.

It is anticipated that by end of the fifth year, each member will have bought an average of ten shares, resulting in a total of 9,000 shares for the whole cooperative.

KFCS will comply with Government of Uganda's rice quality standards as laid out in Quality Standard Number US:41:2001.

Having changed its legal status from an association to a cooperative, KFCS will need to realign its management and governance systems to comply with the statutory cooperative requirements as laid out in the Cooperative Act. Such requirements include holding monthly management meetings and an Annual General Meeting, keeping accurate books of accounts, having its books of accounts audited by the government district commercial officer annually, and paying dividends fairly and to all shareholders at the end of each year.