

PROJECT DESCRIPTION**Igara Value Added Tea****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

Igara Growers Tea Factory Limited (IGTFL) is a farmer owned tea factory in Western Uganda. Since its inception, IGTFL has sold most of its coffee at the Mombasa Auction in Nairobi. Since there is a healthy domestic demand for IGTFL's product, the Company wants to expand its share of the local market by producing and branding tea for national distribution. However, an inefficient packaging process presents a major constraint to market expansion.

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. IGTFL's Contribution

IGTFL will contribute an equivalent of Uganda Shillings (UGX) 4,297,593,084 representing the assets of the company. IGTFL will continue to pay the operational costs including salaries for its entire staff. Additionally, they will pay 50 percent (approximately \$56,000) for six months worth packaging material for the tea bag machine, and cover the full costs thereafter.

IV. Project Goal

The goal of the Project is to improve the economic welfare of farmers in Bushenyi District of Western Uganda.

V. Project Purpose

The purpose of the Project is to increase the income of IGTFIL members and its employees as follows:

- A. IGTFIL's net income (before taxes and depreciation) will increase from the current baseline of UGX 488,544,021 to:
1. UGX 502,000,000 in Year 1;
 2. UGX 996,000,000 in Year 2;
 3. UGX 1,272,000,000 in Year 3;
 4. UGX 1,620,000,000 in Year 4; and
 5. UGX 2,067,000,000 in Year 5.
- B. Increase the value of green leaf supplied from IGTFIL's members from UGX 4,606,000,000 in the Project's base year to:
1. UGX 5,180,000,000 in Year 1;
 2. UGX 5,835,000,000 in Year 2;
 3. UGX 6,563,000,000 in Year 3;
 4. UGX 7,514,000,000 in Year 4; and
 5. UGX 8,284,000,000 in Year 5.
- C. Increase in salary payments to workers from UGX 306,605,850 in the Project's base year to:
1. UGX 322,000,000 in Year 1;
 2. UGX 345,000,000 in Year 2;
 3. UGX 370,000,000 in Year 3;
 4. UGX 396,000,000 in Year 4; and
 5. UGX 424,000,000 in Year 5.

VI. Outputs

The major output of this Project will be IGTFIL's increased capacity to produce, market and sell tea for domestic market as demonstrated by the following indicators.

- A. Increase in the total sales revenues from a baseline of UGX 9,664,000,000 to:
1. UGX 10,793,000,000 in Year 1;
 2. UGX 12,524,000,000 in Year 2;
 3. UGX 14,144,306,000 in Year 3;
 4. UGX 16,043,000,000 in Year 4; and
 5. UGX 18,300,000,000 in Year 5.
- B. Increase the volume of packed tea in sachets from 21 tons in the Project baseline year to:
1. 22 tons in Year 1;
 2. 25 tons in Year 2;
 3. 28 tons in Year 3;

4. 34 tons in Year 4; and
 5. 43 tons in Year 5.
- C. Increase the volume of packed tea in tea bags from zero tons in the Project baseline year to:
1. 7 tons in Year 1;
 2. 23 tons in Year 2;
 3. 27 tons in Year 3;
 4. 32 tons in Year 4; and
 5. 40 tons in Year 5.
- D. Increase in the number of staff employed from current 574 staff in the Project baseline year to 582 in Year 1 throughout the life of the Project.
- E. IGFTL will demonstrate its social responsibility by complying with the Re-Investment Commitment (RIC) Schedule set forth in Appendix A-2 to this Agreement.

VII. Activities

IGFTL will improve its operations by conducting the following major activities:

A. Production

1. IGFTL will fully operationalize a second tea processing line and automate the tea packing system for tea sold in the local market. The tea will be packed in standardized and branded for national distribution. Specific activities will include:
 - a. procure and install package machines;
 - b. train in the use of new machinery; and
 - c. commission production on new equipment.
2. IGFTL will improve its production quality by training relevant staff in Hazard Analysis and Critical Control Points (HACCP).

B. Marketing

1. IGFTL will develop a marketing plan for its packed tea product line, activities include:
 - a. review current packaging and design new packaging materials;
 - b. establish Igara brand;
 - c. procure packaging materials;
 - d. review the pricing structure;
 - e. contract wholesalers and distributors;
 - f. develop promotional materials;
 - g. contract advertising agreements with electronic media;
 - h. participate in trade shows and exhibitions; and
 - i. operate a "tea bar" near factory premises.

2. IGTFIL will procure a vehicle to be used for distribution of tea.

C. Management

1. IGTFIL will strengthen its financial management by:
 - a. undertaking a review of its current accounting manual,
 - b. identifying and address weaknesses in accounting systems;
 - c. procuring and installing relevant accounting software modules;
 - d. automating the payroll function; and
 - e. training the accountant and information technology on new software.
2. IGTFIL will strengthen its human resource management by:
 - a. recruiting staff to fill vacant positions such as marketing supervisor, branding officer, and tea bar attendants; and
 - b. reviewing and updating the human resource manual.

D. Technical Assistance

In order to ensure effective and efficient operation of the new machines, the management of IGTFIL will require technical assistance in the installation of new equipment and the acquisition of UNBS quality mark.

VIII. Roles and Responsibilities of the Parties

ADF's Partner, UDET, will provide the IGTFIL standard ADF training in bookkeeping, monitoring and assessment.

IGTFIL will be responsible for ensuring that there is proper management and implementation of the Project. UDET will provide IGTFIL with the technical and management assistance during the implementation of the Project.

IX. Monitoring and Evaluation

ADF's Partner in Uganda will closely monitor the activities of IGTFIL 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 on-going coaching and advisory service. The Partner will review IGTFIL's quarterly reports and will submit comments and observations to the management of IGTFIL as part of the on-going performance assessment.

X. Other Implementation Issues

The dividend policy will be reviewed during the EEI to ensure that farmers' earnings are maximized.