

APPENDIX A**PROJECT DESCRIPTION:
KD FOODS CASHEW NUT PROCESSING AND EXPORTING****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

Two principals of the commodity trading company, MBS Merchants, Limited, incorporated KD Foods Processing Company, Limited (KD Foods) in 2001, to process raw cashew nuts into kernels for export. Over the past 5 years, the owners of KD Foods have undertaken a series of activities to position the company for growth, including capturing best practices from successful cashew processing companies in India, Mozambique, as well as Nigeria, and drawing on the expertise and experience of other companies.

As a result of these activities, KD Foods is well positioned to expand its business and fully implement its plan for the efficient production of quality cashew kernels. To achieve this objective, KD Foods requires significant financing for the first five years of the full production phase.

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. Client Contribution

KD Foods will invest Naira 111,400,000 over the life of the project. This will be invested mostly in working capital for the purchase of raw cashews. Part of the funds will be invested in equipment, marketing, and internal systems.

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C. Other Contributions

The Nigerian Export and Import Bank will provide export financing in the amount of US \$532,787.

IV. Project Goal

The goal of this investment proposal is to improve the standard of living for residents of Ayimba in Kogi State and Ogbomosho in Oyo State in Nigeria.

V. Project Purpose

The purpose of the Project is to increase KD Foods' income, and the income of its production employees, and smallholder farmers that supply the company raw cashew nuts.

- A. KD Foods' earnings before interest, taxes, depreciation and administrative expenses (EBITDA) will grow from a loss of Naira (1,401,000) in FY 2008; to Naira 1,580,000 in FY 2009; to Naira 4,752,000 in FY 2010; to Naira 7,290,000 in FY 2011; and to Naira 7,951,000 in FY 2012.
- B. Total salary payments to production employees of KD Foods will grow from Naira 10,825,800 in FY 2008; to Naira 13,991,180 in FY 2009; to Naira 16,539,190 in FY 2010; to Naira 17,862,320 in FY 2011; and to Naira 19,291,130 in FY 2012.
- C. The total value of purchases of raw cashew nuts from 500 smallholders for processing in 2008 will be about Naira 35,000,000.

VI. Project Outputs

- A. The Project is expected to increase KD Foods' capacity to produce high-quality cashews for export, as indicated by the following outputs:
 - 1. Total sales revenues generated by KD Foods will grow from Naira 67,500,000 in FY 2008; to Naira 82,500,000 in FY 2009; to Naira 99,825,000 in FY 2010; to Naira 109,807,500 in FY 2011; and to Naira 118,592,100 in FY 2012.
 - 2. The total number of employees at KD Foods is expected to rise from 338 in FY 2008 to 360 by FY 2012.

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3. By the end of the Project, KD Foods will have received Hazard Analysis and Critical Control Points (HACCP) and International Organization for Standards (ISO) certifications.
- B. KD Foods will improve its fiscal and social responsibility as demonstrated by its compliance with the Re-Investment Commitment Schedule set forth in Appendix A-2 to this Agreement.

VII. Major Activities to be Financed Under the Agreement

To generate the above outputs and to fulfil the Project purpose, the following activities will be funded by USADF:

A. Production

KD Foods will undertake a series of activities to expand its production of high quality cashew kernels for export. Production workers will receive training designed to: (1) increase productivity and product quality; (2) ensure procurement of quality raw material, and equipment maintenance. The company will recruit a consultant to assist with the development and implementation of: (1) an operational manual; (2) staff handbook; and (3) job descriptions and roles. In addition, KD Foods will institute a comprehensive quality control system for procurement of raw materials. The Production Manager will take the lead in the implementation of these activities.

B. Market Development

KD Foods will hire a full-time Marketing Manager who, along with the Managing Director, will develop a comprehensive marketing and branding strategy. The company will invest in website development to improve communication with its customers and to increase the attractiveness of its products for export markets.

C. Management Improvement

The Project's management improvement activities include the following: (1) development and implementation of an accounting procedures manual; (2) installation and training on the new automated management and accounting system; (3) training of procurement, production, and quality control managers in identification, handling, transport, and storage of raw nuts; (4) development and implementation of personnel policies and procedures; and (5) installation and training on LegacySoft software.

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D. Personnel Training and Technical Assistance

KD Foods will invest in training its managers and workforce in the areas of production quality management, health and safety, inventory management, software and accounting, and HIV/AIDS awareness and prevention. KD Food will hire consultants to provide technical assistance in the areas of marketing and quality control.

VIII. Roles and Responsibilities of Parties

The USADF Partner in Nigeria will provide the necessary standard USADF training in bookkeeping and monitoring and assessment. The Partner will also provide business advice for the successful implementation of the project.

KD Foods' management is responsible for ensuring the proper management and implementation of the Project. The USADF Partner in Nigeria will provide KD Foods with technical and management assistance during the implementation of the Project.

IX. Monitoring and Evaluation

The USADF Partner in Nigeria will closely monitor the activities of the Project in order to ensure the high quality of the reporting as well as ensure that the project implementation plan is followed. Besides tracking the general progress of the project, the USADF Partner will continuously assess the identified Project risks so that remedial actions can be taken on time in order to forestall any significant adverse impact on the realization of the Project's objectives. Monitoring by the USADF Partner in Nigeria will be an important aspect of the ongoing coaching and advisory service. The USADF Partner in Nigeria will review all the Project's quarterly reports prepared and submitted by KD Foods, and will submit comments and observations to the management of KD Foods as part of the annual Project evaluation. The two organizations will jointly design the evaluation process and KD Foods will incorporate the findings of the evaluation into its annual report.