

PROJECT DESCRIPTION

**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 shall be construed to as amending any of the definitions, conditions, or terms of the Agreement.

**II. Background**

MARMORAM (Pty) Limited of South Africa supplies pre-mixed wall coating material to UGASA Limited (UGASA) for resale in east Africa. Wall coating material is more durable than wall paint in tropical climates. However, the high transportation costs associated with importing coating material from South Africa makes coating unaffordable for a large segment of the east African market. The imported pre-mixed material contains primarily acrylic polymer resins, stones, and sand. UGASA plans to make its wall coating products more price competitive with paint by importing only the polymer resins and mixing them with locally available stones and sand. Accordingly, UGASA needs to establish its own blending facility to produce the finished wall coating material.

**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 3, Section. 1 of the Agreement.

**B. Grantee Contribution**

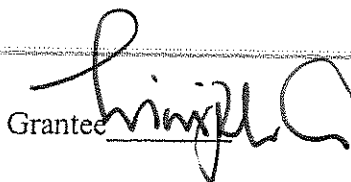
The Grantee will contribute a total of Ush 957,921,400 in the form of equity, infrastructure, cash, and in-kind.

**IV. Project Goal**

The goal of the Project is to promote micro and small enterprise development in Uganda.

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**V. Project Purpose**

The purpose of the Project is to increase the income of UGASA and its employees. The following are indicators of the purpose attainment.

A. UGASA's total wage payment to its employees, including Provident Fund contributions, will increase from Ush 18,032,954 to:

|        |                 |
|--------|-----------------|
| Year 1 | 64,233,120      |
| Year 2 | 68,863,267      |
| Year 3 | 73,973,025      |
| Year 4 | 79,120,382      |
| Year 5 | 97,538,308; and |

B. UGASA's net income will increase from Ush 122, 766,971 to:

|        |               |
|--------|---------------|
| Year 1 | 346,000,000   |
| Year 2 | 597,000,000   |
| Year 3 | 708,000,000   |
| Year 4 | 850,000,000   |
| Year 5 | 1,013,000,000 |

**VI. Project Outputs**

A. UGASA will establish and expand its capacity to manufacture polymer-based wall coating products, as indicated by the following production levels:

|        |                        |
|--------|------------------------|
| Year 1 | 50,493 m <sup>2</sup>  |
| Year 2 | 75,740 m <sup>2</sup>  |
| Year 3 | 83,313 m <sup>2</sup>  |
| Year 4 | 91,645 m <sup>2</sup>  |
| Year 5 | 100,809 m <sup>2</sup> |

B. UGASA will increase its capacity to market pre-mixed wall coating products as indicated by the following:

1. the level of sales revenue increases from Ush 584,063,523 to

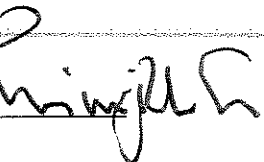
|        |                    |
|--------|--------------------|
| Year 1 | 867,000,000        |
| Year 2 | 1,379,000,000      |
| Year 3 | 1,607,000,000      |
| Year 4 | 1,874,000,000      |
| Year 5 | 2,186,000,000; and |

2. the number of franchised applicators increases from the current 34 to

|        |    |
|--------|----|
| Year 1 | 41 |
| Year 2 | 49 |
| Year 3 | 59 |
| Year 4 | 69 |

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Year 5 79.

**VII. Major Activities to be Funded under this Agreement**

**A. Manufacturing of Wall Coating**

UGASA will establish a fully equipped manufacturing facility that will blend local stones and sand with imported resins to produce an assortment of wall coating products. UGASA will use only MARMORAM trademark polymer resins and stones and sand recommended by MARMORAM. UGASA, in conjunction with Makerere University and MARMORAM, will establish a center at Makerere University to conduct research into the most suitable locally available stones and sand for production of the wall coating.

UGASA will ensure that at all times adequate health and safety measures are in place to protect its employees, others such as franchisees, and the environment. These measures include, but are not limited to the following:

- an adequately constructed and equipped factory
- established procedures in case of an accident;
- protective clothing and gear for employees; and
- production processes that comply fully with the health and safety regulations of the Ugandan National Environment Management Authority and other appropriate authority.

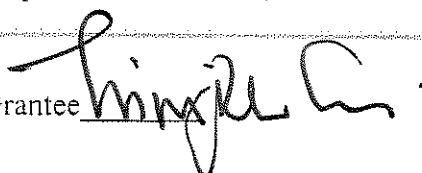
In accordance with the National Security Fund Act of 1985 and other relevant Ugandan law and as an incentive to employees, UGASA will establish and manage a Provident Fund. All full time employees will have the option to contribute five percent or more of their gross income to the Fund. UGASA will contribute five percent of each participating employees' salary to his or her Fund account. A committee consisting of employees, UGASA's CEO, and Accounts Manager will manage the Fund. The committee will direct the broad investment strategy for asset management professionals who will handle the actual day-to-day management of the Fund

**B. Marketing**

UGASA's Marketing Manager will lead the formulation and implementation of the company's marketing plans. UGASA will promote its products aggressively through various venues including brochures, samples, television, and radio. UGASA will award franchises to independent wall coating applicators. These franchisees will be a key means of marketing the UGASA's products. In addition, UGASA will add a marketing officer to its staff.

**C. Training and Technical Assistance**

MORMORAN will provide UGASA employees on-site training in the operation of the new production equipment. In addition, UGASA will select several of its employees to

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train at MARMORAN's headquarters. This training will focus on research and development of locally available materials for production of the wall coating.

UGASA, under the guidance of MARMORAN, will identify and train individuals in the application of the wall coating. Once trained, they will be certified as applicators of UGASA's products.

ADF's Partner organization in Uganda will train UGASA staff in preparation of mandatory ADF reports and accounting. UGASA will contract with private vendors for training in financial management and marketing.

### VIII. Roles and Responsibilities of the Parties

UGASA has primary responsibility for ensuring that Project activities are properly implemented. Within UGASA, the Board of Directors is the highest decision making body. It will determine strategies, policies, and the direction of the entire business. The Board will establish a Project Management Team that will supervise and coordinate implementation of the Project. Four divisions within the company will assist the Board: Finance and Administration, Production, Marketing and Sales (will also incorporate franchisee relations), Procurement.

Pursuant to Article 10 of the Agreement, the Uganda Development Trust (UDET), ADF's Partner, will provide Ugasa Coatings Ltd technical Assistance and advice during the implementation of this project.

### IX. Monitoring and Evaluation

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

### X. Other Implementation Issues

UGASA Coatings Ltd will establish three bank accounts: (a) an account to receive ADF funds, (b) an account to manage the reinvestment funds and (c) the UGASA current account. UGASA will use the reinvestment account to receive regular deposits for equipment replacement and reserves to acquire additional equipment. It will make deposits to the account on a quarterly basis (minimum) beginning as soon as UGASA commissions its factory and receives its new equipment and machinery or when production significantly increases, whichever comes earlier.

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