

PROJECT DESCRIPTION
Kungu Fruit Factory

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

Envalert Uganda Limited (EUL), a limited liability company was spun off from Environmental Alert, a non-governmental organization that is involved in environmental advocacy and food security projects. EUL established Kungu Fruit Factory (KFF) to sell dried fruit to an exporter (Biofresh) who then sells it to a German company. Currently, EUL is the third largest dried fruit company in Uganda. It has opportunities to capture a larger percentage of the market. EUL has also begun to make steps in the lucrative organic market. In 2006, the KFF drying and packaging facility was certified to process organic products, but not enough KFF farmers have been trained and certified in organic farming methods to meet the production demand. As a consequence, KFF must buy organic fruit from Biofresh-registered farmers, process it, and then sell to the exporter.

While expansion and increased profit potential exists, EUL is hampered by outdated and inadequate production equipment and facilities; inexperience in the field of international export; lack of training in organics and food safety standards; limited number of relationships with farmers; a lack of sourcing relationship with organically certified farmers; and insufficient financial management skills.

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. Envalert Uganda Limited (EUL) Contribution

EUL is contributing the skills and time of KFF's employees to the implementation of the Project. In addition, EUL will contribute Ugandan Shillings (USH) 100,000 and USH 720,000 towards the plumbing systems and building refurbishment respectively, and continue paying salaries and wages of its current staff who assist in Project activities and 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 company's goal is to promote the growth of small scale enterprises that process and distribute high-value staple crops produced by smallholder farmers in Uganda.

V. Project Purpose

The purpose of the project is to improve EUL's prospects for sustained expansion as indicated by the development of a comprehensive five-year business plan that ADF deems suitable for funding by a donor or other financial institution.

VI. Project Outputs

A. Business Plan and Market Development

A business plan that includes the following elements:

- a selling and distribution strategy that enables Kungu Fruit Factory to expand its client base; and
- projected financial results that support the proposed investment in the business plan.

B. Production

- Processing plant refurbished
- A Hazard Analysis and Critical Control Point (HACCP) system developed and implemented
- Clean water system installed
- Hygiene standards compliant with UNBS
- Profile selected farmers for organic certification
- Production manual developed.
- Organic farmers complying with ICS standards.
- Recruit an ICS Manager
- Product organically certified

C. Marketing

- Product branded and launched on the domestic and export market
- Marketing plan in place
- Packaging materials sourced with appropriate design /print labels.
- An organic certificate acquired

D. Management Systems

- Finance/Accounting Systems
 - Full time Finance and Accounts Manager hired
 - Finance and accounting systems including accounting manual in place
 - Accounting software installed and functioning

- Human Resources
 - A well-developed human resources function and human resources manual in place
 - A staff training and development plan in place
- Environmental Review
 - Environmental Impact Report completed

E. Governance

- Proposed structure of the board in place and functioning
- A plan for allocating the remaining unallocated shares participating farmer associations
- Land fully transferred from Environmental Alert to Envalert by the end of the EDI period

VII. Activities

A. Product Development

- Establish an organic certification system
 - Train farmers in organic production
 - Develop company Internal Control Systems
 - Pay certification fee to IMO
 - Recruit ICS manager
- Train employees and implement a Hazard Analysis and Critical Control Point (HACCP) system
 - Identify and contract trainers in HACCP
 - Implement HACCP principles
 - Cover with net all windows and ventilations at the existing processing premises
 - Install a water system at factory to provide clean water for processing
 - Fence off factory premises
- Carry out microbiological analysis
 - Determine the hygiene status of the product
 - Determine the pathogen levels of the product
 - Carry out on site microbiological control of work surfaces and personal hygiene

B. Marketing

- Brand the product
 - Identify expert in branding new products
 - Design and print labels for the products
 - Identify source and procure packaging materials

- Market Review
 - Find out the world market prices of the dried fruits that KFF produces or intends to produce
 - Review EUL's current product pricing policy and make recommendations
 - Provide details of appropriate packaging materials and requirements and their attendant costs and sources for both domestic and export markets
 - Assist EUL to develop a detailed marketing plan for its products, both for the domestic and export markets

C. Management Systems

Carry out management improvement systems in the areas of:

- Finance and Accounting
 - Review the current finance/accounting systems
 - Identify remediate inadequate accounting policies and procedures
 - Develop an accounting and finance manual
 - Procure computer equipment and appropriate accounting software
- Human Resource Management
 - Conduct a skills audit that is in tandem with industry standards
 - Hire and/or redeploy key qualified management and operational personnel on the basis of the skills audit.
 - Develop a human resources manual
- Governance Issues
 - Review and evaluate the current governance structure and setup
 - Seek both boards' concurrence on the evaluation report
 - Follow up on the recommendations of the evaluation report
 - Train the board regarding their roles and responsibilities
 - Devise a plan for allocating all unallocated shares to members of the participating farmer associations
- Commission an Environmental Improvement 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. EUL is responsible for ensuring the proper management and implementation of the Investment. The USADF Partner in Uganda will provide EUL with technical and management assistance during implementation.

IX. Monitoring and Evaluation

USADF's Partner in Uganda will closely monitor the activities of EUL 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 EUL as a part of the on-going performance assessment.

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