

**APPENDIX A:
PROJECT DESCRIPTION
BARBEX TECHNOLOGY ESSENTIAL OIL PROCESSING PROJECT**

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

Barbex Technology Limited (BTL) is an agro-processing company. In May, 2004 it began diversifying from coffee production into processing and marketing a range of essential oils as finished and bulk intermediate products. BTL is the first company in Ghana to undertake commercial processing of essential oils and aromatic crops. Ghanaian industries have imported essential oils mainly from Europe, South Africa, and the United Arab Emirates. BTL has plans to extend its sales beyond the domestic market to other African countries, Europe, and Canada. BTL currently has orders from Kama Health Services Limited in Ghana, Tomaco & Sons in Togo, Medimart Afrique in Benin, and a fragrance broker in France. The company is in need of capital to carryout its growth strategy in the essential oils market.

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 3.1 of the Agreement.

B. Grantee Contribution

Barbex's contribution to the Project includes the following: (1) purchase of one pick-up truck and two motor cycles; (2) purchase of spray bottles for finished products; (3) the construction of a second borehole for water; and (4) provision of land to farmers for cultivation of aromatic crops to support the company. BTL's total contribution to the Project is estimated at 581,250,000 cedis. It is BTL's responsibility to contribute these items regardless of the actual final costs.

BTL will create a provident fund for its employees with up to a 5 percent matching company contribution. Barbex will pay a thirteenth month salary to its employees as an

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incentive bonus. In addition, the company plans to put 5 percent annually from after-tax profits into a community development fund for various projects in the surrounding community. BTL will maintain its policy of social security contributions.

IV. Project Goal

The goal of the Project is to improve the socio-economic conditions of the poor, especially the farmers in the Adomfe and surrounding villages in which BTL operates.

V. Project Purpose

The purpose of this Project is to increase the incomes of BTL, its employees, and participating farmers, as indicated by the following.

- BTL's net income will increase from 84,000,000 cedis in 2004 to 440,587,000 cedis in year 1; to 1,010,965,000 cedis in year 2; 2,030,917,000 cedis in year 3; 3,642,863,000 cedis in year 4; and 5,963,891,000 cedis in the fifth year.
- BTL's total wage payment to its employees will grow from 2,074,320,000 cedis in year 1, to 2,489,184,000 cedis in year 2, 2,987,021,000 cedis in year 3, 3,584,425,000 cedis in year 4, and 4,301,310,000 cedis in year 5.
- The average dividend payment to employees in the form of provident fund contributions and bonuses will increase from 136,910,000 cedis in the first year, to 155,947,000 cedis in the second year, 250,908,000 cedis in the third year, 388,898,000 cedis in the fourth year, and 584,019,000 cedis in the fifth year.
- BTL's purchases of biomass from farmers will rise from 74,000,000 cedis in year 0 to 521,731,000 cedis in year 1; 925,595,000 cedis in year 2; 1,544,164,000 cedis in year 3; 2,615,016,000 cedis in year 4; and 4,290,006,000 cedis in year 5.

VI. Project Outputs

A. Increased Production and Marketing Capacity

1. BTL's output of processed essential oils will increase from 6,760 kilograms in year 0 to 19,070 kilograms in year 1; 23,838 kilograms in year 2; 29,797 kilograms in year 3; 37,246 kilograms in year 4; and 46,558 kilograms in year 5.
2. Sales revenue will increase from cedis 825,000,000 in year 0 to cedis 4,626,450,000 in year 1; cedis 6,564,354,000 in year 2; cedis 9,313,998,000 in year 3; cedis 13,215,399,000 in year 4; and cedis 18,750,999,000 in year 5.

3. BTL's full-time jobs will increase from 175 in year 0 and year 1 to 190 in year 2; 220 in year 3; 235 in year 4; and 250 in year 5.
4. The biomass produced by farmers will increase from 150 metric tons in year 0 to 848 metric tons in year 1; 1,286 metric tons in year 2; 1,834 metric tons in year 3; 2,653 metric tons in year 4; and 3,720 metric tons in year 5.
5. The number of farmers participating in the Project will increase from 20 in year 0 to 50 in year 1; 75 in year 2; 100 in year 3; 125 in year 4; and 150 in year 5.

B. Increased Management Capacity

1. BTL will formulate and implement a marketing plan by the end of year 1.
2. By the end of year 1, BTL will adopt and implement policies and procedures in financial planning, cash management, investment management, project and contract management and internal controls that are consistent with industry "best practices".

VII. Major Activities to be Financed Under the Agreement

A. Field Level Activities

In order to ensure an adequate supply of high quality raw materials for its expanded production scheme, BTL will increase its cultivation of citronella, lemongrass and other aromatic crops from approximately 45 hectares to approximately 230 hectares over the five years of the Project. To this end, BTL will expand its out-grower program by contracting with farmers to cultivate selected plants on the company's plantation in exchange for giving BTL the exclusive right to purchase the crops produced. BTL will train the farmers in agronomic practices, expand its nursery for propagation of planting materials, and provide transportation of the raw material from the plantation to the processing plant.

B. Processing Level Activities

The processing of aromatic plants into essential oils involves drying, sorting, weighing, loading, and distilling plant biomass. BTL will use hydro or water distillation process to ensure high quality oil and an efficient production process. BTL will procure and install essential oil extraction plant equipment and Project vehicles (a truck and a tractor).

BTL will recruit additional management personnel and operational workers, including production managers, to solidify the management team. BTL will also organize and train farmers in modern agronomic practices and establish a quality control. All current and newly hired staff will undergo intensive staff training and skills transfer development.

C. Marketing

BTL will implement marketing and outreach programs to introduce its products to the local market. It will hire a qualified professional to lead the formulation and implementation of the company's marketing strategies.

D. Training

BTL will recruit experts to train its staff in several areas, including the following: (1) production planning; (2) health and safety; (3) marketing and sales promotion; and (4) HIV/AIDS prevention. ADF's Ghana Partner, INPRODEC, will train designated BTL staff in ADF accounting procedures and monitoring and assessment. BTL will hire experts to train key staff of the company and farmer groups' leaders in group dynamics, managing farmer benefits scheme, yield improvement, farm maintenance, and other Project related areas.

VIII. Roles and Responsibilities of the Parties

BTL is responsible for ensuring the proper management and implementation of the Project. The current two-member Board of Directors will expand to at least a five-person Board. In addition, the expansion of the management staff and extensive training of these individuals will help accommodate the expanding operation. The ADF Partner in Ghana, INPRODEC, will provide BTL technical and management assistance during the implementation of the Project.

IX. Monitoring and Evaluation

INPRODEC will closely monitor the activities of the company in order to ensure high quality assurance of the reporting as well as ensure the Project implementation plan is followed. Besides tracking general progress of the Project, INPRODEC will continuously assess the identified Project risks so that remedial actions are timely. Monitoring by INPRODEC will be an important aspect of the ongoing coaching and advisory service. In addition, INPRODEC will assess the success of the BTL's smallholders/outgrowers farm development program. INPRODEC will review BTL's quarterly reports and will submit comments and observations to the management of BTL as a part of the annual Project evaluation. The two organizations will jointly design the evaluation process and BTL will incorporate the findings of the evaluation into their annual report.

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