

**APPENDIX A:
PROJECT DESCRIPTION**

MHL VEGETABLE PRODUCTION AND MARKETING – CAPE VERDE

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

Milot Hydroponics, Lda. (MHL) is a small enterprise that grows a variety of high-quality produce in greenhouses in Sal, Cape Verde. It uses hydroponics techniques to produce fresh vegetable products, including tomatoes, bell peppers, cucumbers, lettuce and eggplant. MHL sells the Grade A produce to the hotels, restaurants, wholesalers and retailers on the island of Sal.

MHL, the only fresh vegetable producer on the island of Sal, has pioneered the use of hydroponics in Cape Verde. MHL reached its production capacity in 2004 and, at present, is incapable of meeting the demand for its produce. MHL's goal is to maintain its position as the leading producer and seller, in Cape Verde, of fresh vegetables grown with hydroponics. MHL, thus, seeks to expand its operations. By increasing its production capacity, MHL will also begin to reduce Cape Verde's reliance on imported produce. Through an expansion, MHL could also introduce new products such as zucchini and endives.

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

MHL's total contribution to the Project is estimated at CVE 15,020,040, to cover the cost of the following:

1. setting up of the greenhouses and distribution warehouses with coolers;

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2. securing the land for the expansion of production;
3. donation of vegetables to low-income children at two kindergartens and one elementary school in Espargos and Santa Maria, as follows:

CVE 353,880 in Year 2
CVE 370,612 in Year 3
CVE 384,402 in Year 4
CVE 387,093 in Year 5

4. contract with the Municipality to increase the water supply from 70 tons/day to 140 tons/day; and
5. acquisition of a new truck to handle the increase in transportation needs caused by the expansion.

MHL is importing from Brazil a new technology for growing lettuce, called Nutrient Film Technique (NFT System). The NFT system will allow MHL to increase current production of new plants from 1000 plants per week to 5000 plants per week. MHL invested US \$30,000 to get access to this system.

IV. Project Goal

The goal of the Project is to contribute to the business success of a small/medium privately-owned enterprise, while directly benefiting the targeted community by increasing employment opportunities and promoting product quality in the agro-food sector.

V. Project Purpose

The purpose of the Project is to increase income for MHL and its employees.

- A. MHL's net income before income taxes, depreciation and CRG will increase as follows:

CVE 5,462,396 in Year 1
CVE 10,978,312 in Year 2
CVE 13,998,370 in Year 3
CVE 14,840,030 in Year 4
CVE 14,902,358 in Year 5

- B. Total payroll to MHL employees increases from CVE 9,119,916 to:

CVE 13,044,000 in Year 1
CVE 13,738,596 in Year 2
CVE 13,834,766 in Year 3
CVE 13,931,610 in Year 4
CVE 14,463,002 in Year 5

VI. Outputs

A. Increased production capacity, as indicated by:

1. MHL's production increase from 178,250 kilogram to:
 - 291,800 kilogram in Year 1
 - 306,390 kilogram in Year 2
 - 318,646 kilogram in Year 3
 - 328,205 kilogram in Year 4
 - 328,205 kilogram in Year 5
2. MHL's annual sales increase from CVE 36,967,500 to:
 - CVE 67,154,000 in Year 1
 - CVE 71,005,282 in Year 2
 - CVE 74,362,412 in Year 3
 - CVE 77,129,437 in Year 4
 - CVE 77,669,343 in Year 5
3. MHL's workforce increases from the current level of 28 fulltime jobs to 41 during Year 1 of the Project.

B. Increased management capacity, as indicated by:

1. administrative and financial management system producing monthly statements in Year 1;
2. Project performance monitoring plan developed in Year 1 (data collected, analyzed, and reported on critical project indicators during the life of project);
3. marketing plan developed; and
4. operation by the annual and pluri-annual budgets.

VII. ACTIVITIES

A. Construction

MHL will build three new greenhouses, in which it will apply a new, flow-through irrigation technology. Each new greenhouse will have an area of 3,528 square meters, which will provide MHL with an additional 10,584 square meters of greenhouse space. The expanded facility will increase MHL's production capacity by 84 percent. After the expansion, the total combined greenhouse space will be 25,584 square meters. MHL will also build a new distribution center and a work space center that will equip the company with walk-in coolers for its produce and will also allow longer storage and shelf life for its products.

B. Marketing

MHL will develop and implement an aggressive marketing plan. The marketing and promotional activities will include strengthening visibility, consistency and strategic relationships.

C. Training

Training will be provided in accounting and reporting systems procedures, including training on the use of Primavera Version 6 (The Accounting and Commercial Modules); as well as in hydroponics techniques, and the appropriate use and handling of pesticides. Further training programs will be instituted as new employees are hired.

VIII. Roles and Responsibilities of the Parties

The staff and elected leadership of MHL are responsible for the management and the proper implementation of the 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 work with the Partner to develop 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.

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