

**APPENDIX A:
PROJECT DESCRIPTION
Rabong Essential Oils 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 shall be construed to as amending any of the definitions, conditions, or terms of the Agreement.

II. Background

Between 1998 and 2002, global trade in natural essential oils grew from 136,447 tons (valued at US\$ 1,305,636,000) to 155,782 tons (valued at US\$ 1,452,814,000). Demand has remained constant since 2002 due to global recession, but is expected to increase in the coming two years. In Africa, the demand for products made with essentials oils such as soaps, shampoos, and insect repellants, is growing.

Uganda's year round rainfall and relatively cheap labor give it a regional competitive advantage in the cultivation of grasses, such as citronella and lemon grass, used to produce essential oils. In addition, farmers in the Tororo District of Uganda have shown a strong interest in the cultivation of these grasses.

In response to these advantages, Rabong Multi-Purpose Cooperative Society (Rabong) plans to introduce processing of essential oils on an industrial scale in Uganda. To this end, Rabong needs infusions of capital, improved technology, and technical expertise to expand its small scale essential oils processing operation.



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 3.1 of this Agreement.

B. Grantee Contribution

Members of Rabong Society will contribute a total of 93 acres of land on which they will cultivate essential oils grasses. The total value of the land is estimated at Ush 37,200,000. In addition, Rabong will contribute its existing distilling assets worth Ush 17,983,195. Rabong's total contribution to the Project is estimated at Ush 55,183,195.

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C. Other Contributions

Rabong's international buyer and strategic partner in organic oil production and certification, La Comba Aromatica of France, will contribute funds for the initial process of organic certification of 40 acres of land and the processing and marketing of the products, valued at Ush 39,000,000.

IV. Project Goal

The goal of the Project is to improve the living standards of farmers in Tororo District of Uganda.

V. Project Purpose

The purpose of the Project is to increase incomes of Rabong and its employees, as indicated by the following.

A. Rabong's annual earnings before interest and taxes change from Ush 1,820,000 to:

Year 1	(15,918,000)
Year 2	596,000
Year 3	75,544,000
Year 4	104,070,000
Year 5	119,372,000.

B. Total salaries paid to processing plant workers and management increases from zero to:

Year 1	5,880,000
Year 2	18,618,000
Year 3	21,295,000
Year 4	22,786,000
Year 5	24,381,000.

VI. Project Outputs

The Project will generate the following outputs.

A. Increased capacity to process essential oils, as indicated by the following.

1. Number of workers in the processing enterprise increased from current 4 to:

Year 1	8
Year 2	8
Year 3	10
Year 4	10
Year 5	10.

2. Production of essential oils increased from 450 liters per year to:

Year 1	662 liters
Year 2	4,303 liters

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Year 3	8,087 liters
Year 4	9,058 liters
Year 5	10,235 liters

3. Rabong is licensed as a certified organic producer of essential oils by the end of Year 3 of the Project.

B. A reliable supply chain for the acquisition of citronella and lemongrass raw materials established, as indicated by the following.

1. The number of farmers under contract with Rabong with a minimum of 1 acre under citronella or lemongrass cultivation increased from 10 to:

Year 1	22
Year 2	30
Year 3	61
Year 4	84
Year 5	107.

2. Rabong's purchase of citronella and lemongrass from farmers increases from Ush 2,380,000 to:

Year 1	4,751,000
Year 2	32,731,000
Year 3	80,748,000
Year 4	94,152,000
Year 5	104,791,000

VII. Major Activities to be financed under the Agreement

A. Farm-Level Activities

At the start of Project implementation, Rabong will enter into contracts with approximately 20 farmers to supply conventional and organic plants for the processing operation. By the end of the Project the acreage under lemongrass and citronella production is expected to increase from 29 to approximately 93 acres, and the number of farmers under contract will expand to approximately 93 -- 60 percent of which is expected to cultivate organic plants.

Rabong's Secretary Manager or other appropriate representative and a technical assistance provider, such as the Tororo District Cooperative Office, will train farmers in agronomic practices for essential oils crops. Rabong will visit Project farmers regularly, e.g. on a weekly basis, to provide agronomical technical assistance and track the progress of the farmers. The Project will supply motorcycles to facilitate these visits. In addition, Rabong will establish a nursery for the propagation of new planting materials as more farmers join the Project.

La Comba Aromatica, an international buyer of organic essential oils, will provide Rabong the technical assistance it needs to acquire its own organic certification. This assistance will involve soil testing, training of Rabonga staff and farmers, and the

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establishment of a tracking system to ensure traceability of product flow. Rabong will apply to a recognized certification agency, such as the Institute for Marketecology in Switzerland, for the certification.

B. Processing of Essential Oils

The Project will help Rabong diversify and expand its processing operation to include organic as well as conventional essential oils. Rabong will import a processing plant from Australia and install it on a leased plot in Nagongersa Town Center. Rabong will ensure the plant is supplied with electricity in a timely manner. It will construct a borehole on the site to guarantee an adequate supply of water.

Rabong will hire a truck to move crops from the farmers' gardens to the processing plant. It will establish a crop finance fund to ensure prompt payment to farmers for their crops.

Rabong will use steam distillation technology to process plants into oil. Within the first year of the Project, Rabong will organize its new production workforce, procure new equipment, train workers on equipment, set production targets, institute a system to monitor production levels, establish a quality control department, and design and implement quality control procedures and monitoring.

In addition, to acquiring improved processing technology, equipment, and systems, Rabong will enhance its production capacity by recruiting the following skills sets:

- a project manager/agronomist, who will have overall responsibility for day to day management oversight of the Project;
- a production/laboratory technician, who will have responsibility for production and quality control;
- an accountant, who will have responsibility for finance and overall office operations; and
- a maintenance technician, who will operate and oversee the operation and maintenance of production equipment.

C. Marketing

The administrative and marketing assistant, under the supervision of the project manager, will lead the formulation and implementation of Rabong's marketing plans. Rabong will advertise its products locally in print and non-print media. It will participate in major trade fairs in Uganda.

D. Training

The Tororo District Cooperative Office will provide management training to appropriate members of Rabong's staff and its executive committee. ADF's Partner

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organization in Uganda will train designated Rabong staff in preparation of mandatory ADF reports, accounting, and self-assessment and evaluation.

VIII. Roles and Responsibilities of the Parties

Rabong has primary responsibility for ensuring that Project activities are properly implemented. A project manager, supported by a project management team, will have responsibility for the day-to-day implementation of the Project. Rabong's executive committee will have direct oversight of the project management team.

Pursuant to Article 10 of the Agreement, the Uganda Development Trust (UDET), ADF's Partner, will provide Rabong technical assistance and advice during the 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 provide the Partner input for the Project monitoring plan, which will include the establishment of annual targets for the performance indicators. 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

Rabong will establish three bank accounts: (a) an account to receive ADF funds; (b) an account to manage the reinvestment funds; and (c) a current account. Rabong 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 at least quarterly beginning as soon as Rabong receives its new equipment and machinery or when production significantly increases, whichever comes earlier.

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