



APPENDIX A

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

Annual global trade in organic vanilla exceeds \$US 0.5 billion; and in comparison with other agricultural commodities, natural vanilla has a high profit margin. Organic vanilla demands a 30-40 percent price premium over the conventional product.

Mukono Vanilla Society (Mukono), a leading producer and processor of high quality vanilla in Uganda, wants to penetrate the international market for organic vanilla. However, Mukono lacks the resources needed to secure the services of an internationally recognized organic certifying agent and working capital to operate a viable export business.

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 (Mukono) will contribute its existing assets totaling approximately Ush 354.3 million, consisting of physical assets of Ush 21.1 million (net book value), inventory of Ush 60 million (cured beans), receivables of Ush 82.6 million, a revolving loan fund (members credit scheme) of Ush 144 million, and cash of Ush 46.6 million.

IV. Project Goal

The goal of the Project is to improve living standards in the Mukono and Kayunga districts of Uganda.

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V. Project Purpose

The purpose of the Project is to increase the incomes of the Society, its workers, and members, from vanilla production and processing as measured by the following.

- A. Total revenues paid to member farmers by the Society for vanilla increases from Ush 227,300,000 to:
- Year 1 – Ush 528,010,000
 - Year 2 – Ush 641,531,000
 - Year 3 – Ush 1,058,186,000
 - Year 4 – Ush 1,550,997,000
 - Year 5 – Ush 1,808,792,000
- B. The Society's net income before income tax, depreciation and CRG will grow from Ush 7,390,282 to:
- Year 1 -- Ush 54,029,000
 - Year 2 -- Ush 65,079,000
 - Year 3 -- Ush 174,398,000
 - Year 4 -- Ush 260,785,000
 - Year 5 -- Ush 283,723,000
- C. Total wages paid to the Society's employees (including an average of 200 seasonal workers) will be:
- Year 1 -- Ush 101,285,000
 - Year 2 -- Ush 111,919,000
 - Year 3 -- Ush 146,618,000
 - Year 4 -- Ush 165,781,000
 - Year 5 -- Ush 178,786,000

VI. Project Outputs

The Mukono Vanilla Spices and Horticultural Cooperative Society will improve and increase its vanilla curing capacity, as indicated by the following:

- A. Quantity of conventional cured vanilla produced will increase from 2,881 kilograms to:
- Year 1 -- 11,000 kilograms
 - Year 2 -- 8,000 kilograms
 - Year 3 -- 8,400 kilograms
 - Year 4 -- 12,000 kilograms
 - Year 5 -- 12,000 kilograms

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- B. Quantity of cured organic vanilla produced will be:
- Year 1 -- 0 kilograms
 - Year 2 -- 3,500 kilograms
 - Year 3 -- 8,400 kilograms
 - Year 4 -- 10,921 kilograms
 - Year 5 -- 12,559 kilograms
- C. Gross revenues from vanilla sales will increase from Ush 315,000,000 to:
- Year 1 – Ush 742,587,000
 - Year 2 – Ush 894,607,000
 - Year 3 – Ush 1,455,570,000
 - Year 4 – Ush 2,088,326,000
 - Year 5 – Ush 2,388,630,000
- D. Export sales value will increased from Ush 315,000,000 to:
- Year 1 – Ush 742,587,000
 - Year 2 – Ush 894,607,000
 - Year 3 – Ush 1,455,570,000
 - Year 4 – Ush 2,088,326,000
 - Year 5 – Ush 2,388,630,000
- E. The number of participating farmers will increase from the current baseline of 1,200 to:
- 1,200 in Year 1
 - 1,375 in Year 2
 - 1,600 in Year 3
 - 1,850 in Year 4
 - 2,000 in Year 5
- F. The number of full-time workers the Cooperative employs will increase from the current number of (4) employees to:
- five (5) employees in Year 1
 - seven (7) employees in Year 2
 - seven (7) employees in Year 3
 - seven (7) employees in Year 4
 - seven (7) employees in Year 5

VII. Major Activities to be funded under this Agreement

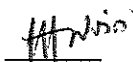
A. Organic Certification

The Mukono Vanilla Spices and Horticultural Cooperative Society will hire an organic certifying organization to inspect and certify the farms of its selected members to produce organic vanilla. Initial organic certification will cover approximately eighty-five (85) acres and 170 farmers. By the end of the Project the organization is expected to certify an additional 165 acres owned by 330 farmers. The Society will establish fair and transparent criteria for the selection of farmers for certification.

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B. Vanilla Processing

The Society will establish a fund for the purchase of green vanilla beans from its farmer members. The fund will enable the Society to procure the maximum quantity of high quality beans for processing.

C. Marketing

The Society will aggressively promote its product on international markets. Methods used will include, at a minimum, the following:

1. sending solicitation letters to potential buyers in Europe and North America; and
2. participation in local and international trade fairs.

D. Training and Technical Assistance

Mukono Vanilla Spices and Horticultural Cooperative Society will contract technical financial, accounting, and marketing support to develop accounting systems, financial analysis, and internal marketing capacity within the Cooperative. Appropriate members of staff will receive training in accounting, financial analysis and marketing functions, use of computer software (PASTEL), and monitoring and evaluation.

The Grantee will hire an organic farming specialist to continuously train its selected organic farmers in the principles and practices of organic farming and maintenance of organic standards.

VIII Roles and Responsibilities of the Parties

The Executive Committee of the Cooperative is responsible for the establishment of broad organization policies while the management team is responsible for proper implementation of the Project. Uganda Development Trust (UDET) will provide technical assistance to the Cooperative and management team during the life 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's monitoring plan. In addition, during implementation, the committee will have the 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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