

PROJECT DESCRIPTION

**Gumutindo Coffee Cooperative Enterprise Limited (GCCE)
Uganda**

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

The Gumutindo Coffee Cooperative Enterprise, Limited (GCCE), a cooperative society owned by smallholder farmers in the Mbale District of Eastern Uganda, provides services, including marketing, to its members. GCCE lacks sufficient capital to procure its members' Arabica coffee, which causes some members to side-sell at lower prices. Consequently, GCCE cannot fill buyer contracts, which worsens the Cooperative's cash flow problems. Additionally, GCCE has not been able to help its members acquire critical production inputs.

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 4, Section 4.1 of the Agreement.

B. GCCE Contribution

GCCE will contribute the equivalent of Uganda Shillings (UGX) 345,622,000 representing the net assets value of the organization. The cooperative will as part of its contribution continue to pay for the salaries and wages of all its current employees valued at UGX 618,975,000 for the five year period.

IV. Project Goal

The goal of the Project is to improve the economic livelihoods of coffee farmers in Mbale District.

V. Project Purpose

The purpose of this Project is to increase the income of GCCE farmer members and its employees as follows:

ADF



GCCE



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- A. GCCE's net income (before taxes and depreciation) will increase from the 2007 baseline of UGX 17,796,713 to:
1. UGX 233,000,000 in Year 1;
 2. UGX 276,000,000 in Year 2;
 3. UGX 337,000,000 in Year 3;
 4. UGX 432,000,000 in Year 4; and
 5. UGX 542,000,000 in Year 5.
- B. Increase the value of coffee parchment supplied by GCCE farmer members from UGX 1,656,308,330 in the Project's base year to:
1. UGX 2,316,000,000 in Year 1;
 2. UGX 2,649,000,000 in Year 2;
 3. UGX 3,031,000,000 in Year 3;
 4. UGX 3,467,000,000 in Year 4; and
 5. UGX 3,967,000,000 in Year 5.
- C. Increase in the value of annual salaries from UGX 79,454,728 in the Project's base year to:
1. UGX 87,000,000 in Year 1;
 2. UGX 112,000,000 in Year 2;
 3. UGX 136,000,000 in Year 3;
 4. UGX 141,000,000 in Year 4; and
 5. UGX 147,000,000 in Year 5.

VI. Outputs

The major output of this Project is an increase in GCCE's capacity to provide services to its members for the production and marketing of Arabic coffee, as demonstrated by the following indicators.

- A. Increase in sales revenues from UGX 1,618,267,000 in the base year to:
1. UGX 2,912,000,000 in Year 1;
 2. UGX 3,332,000,000 in Year 2;
 3. UGX 3,812,000,000 in Year 3;
 4. UGX 4,360,000,000 in Year 4; and
 5. UGX 4,988,000,000 in Year 5.
- B. Increase in the number of staff employed from current 22 staff in the project base year to 29 in Year three, and 32 in Year four until the end of the Project.
- C. Increase in the volume of farmer coffee exported to organic and fair trade markets through GCCE from the current 324 tons in the project base year to:
1. 540 tons in Year 1;
 2. 594 tons in Year 2;
 3. 653 tons in Year 3;

4. 719 tons in Year 4; and
 5. 791 tons in Year 5.
- D. Increase in the number of participating farmers using hand pulpers from the current 305 in the project base year to:
1. 445 in Year 1;
 2. 595 in Year 2;
 3. 755 in Year 3;
 4. 927 in Year 4; and
 5. 1,110 in Year 5.
- E. Increase in the number of farmers assisted from the current 7,564 in the project base year to:
1. 8,000 in Years 1 and 2;
 2. 12,000 in Years 3 and 4; and
 3. 14,000 in Year 5.
- F. Increase in the number of participating primary cooperatives from current 10 in the base year to 14 by Project Year 3.
- G. GCCE will demonstrate its social responsibility by complying with the Re-Investment Commitment (RIC) Schedule set forth in Appendix A-2 to this Agreement.

VII. Activities

A. Production and Operations

Under this Project, GCCE will improve its delivery of services to its members, and expand its outreach to farmers. The farmers' lack of access to efficient coffee pulpers limits their ability to process coffee cherries at the farm level in a timely manner. During the first year of the Project, GCCE will establish and implement the hand pulper revolving fund. The hand pulper initiative will include the design of mechanisms for selecting farmers and distributing the pulpers. In addition, GCCE will operate a crop finance fund, which will enable the Cooperative to pay farmer members cash on delivery for their coffee cherries. During the first two years of Project implementation, GCCE will recruit an additional four primary cooperatives and work with all member cooperatives to increase the number of participating farmers. GCCE, as a service to its farmer members, has employed a certification manager and field certification officers who train farmers and work with them through the conversion process, including monitoring on-farm practices. GCCE also pays the inspection and certification fees as an additional service to its members.

B. Finance and Administration

While compiling the financial statements for the 2008 financial year, GCCE will use the approved international accounting standards in order to be fully compliant with the national regulations.

Following on the technical assistance to be provided by Twin Trading Limited, the

financial assessment tool will be re-administered during the first year of the project to ensure that the gaps identified at the project design have been fully addressed.

VIII. Roles and Responsibilities of the Parties

ADF's Partner, UDET, will provide the GCCE the standard ADF training in bookkeeping, monitoring and assessment.

GCCE will be responsible for ensuring that there is proper management and implementation of the Project. The ADF Partner in Uganda, UDET, will provide GCCE with the technical and management assistance during the implementation of the project.

IX. Monitoring and Evaluation

ADF's Partner in Uganda will closely monitor the activities of GCCE 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 on-going coaching and advisory service. The Partner will review GCCE's quarterly reports and will submit comments and observations to the management of GCCE as part of the on-going performance assessment.

X. Other Implementation Issues

GCCE will train farmers in best coffee agronomic practices, organic farming, fair trade standards and other farm business management with funds received from Lutheran World Relief (LWR). The cooperative will also train the primary society leaders in good corporate governance and business management skills using the same resources from LWR.

The Cooperative will receive technical assistance from Twin Trading in improving its accounting systems which at the moment are not adequate. With its own funds, the cooperative will also design and host its own website and revise its current brochure both made to improve its marketing.

GCCE is currently in the process of developing a human resource manual and once it is ready, ADF's partner organization, UDET, will work the management to review it and ensure it addresses all current gaps in the Cooperative's human resources practices.

GCCE will continue to comply with the requirements of the organic and fair trade certification as well as facilitating the certification of new primary societies and members.

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