

**PROJECT DESCRIPTION****Mpanga Tea Expansion****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**

Mpanga Growers Tea Factory Limited (MGTFL) is a smallholder, farmer-owned factory in Uganda registered as a public limited liability company that produces and markets tea for foreign and domestic consumption. In September 2007, MGTFL received funding from ADF that was primarily used to improve production, human resource management, corporate governance, and marketing and financial systems. A major constraint identified during this Project was the company's inadequate tea leaf withering capacity. Currently, MGTFL does not buy all the green leaf produced by its members all year round due to limited green leaf withering capacity. MGTFL seeks additional resources from ADF to boost its withering capacity, reduce green leaf wastage, and increase both the amount of made tea processed as well as greatly improve its made tea quality.

**III. Funding****A. ADF Contribution**

The financial plan for ADF's contribution is set forth in Appendix A-1 of this Agreement. The parties may make changes to the financial plan without formal amendment, if such changes are made in accordance with Article 8 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. MGTFL Contribution**

MGTFL will contribute land, buildings, tea processing machinery, a generator, and other fixed assets. MGTFL will also contribute the time, skills, and labor of its existing employees. The company will continue to pay for all administrative, production, and other operational costs not covered by ADF. In addition, MGTFL will pay approximately fifty percent of freight costs and all costs associated with the installation and commissioning of the Project equipment.

**IV. Project Goal**

The goal of this Project is to improve the economic welfare of farmers in Kabarole District of Uganda.

**V. Project Purpose**

The purpose of this Project is to increase the incomes of MGTFL's members and its employees. This will be evidenced by the following.

- A. Increased adjusted net income (before taxes and depreciation) from UGX 708,134,000 in 2008 and UGX 145,741,000 in Year 1 to:
  - 1. UGX 459,039,000 in Year 2;
  - 2. UGX 778,056,000 in Year 3;
  - 3. UGX 1,143,078,000 in Year 4; and
  - 4. UGX 1,588,320,000 in Year 5.
  
- B. Increase the value of green leaf tea supplied from MGTFL's members from UGX 2,142,000,000 in the Project's base year to:
  - 1. UGX 2,249,100,000 in Year 1;
  - 2. UGX 2,597,711,000 in Year 2;
  - 3. UGX 3,000,356,000 in Year 3;
  - 4. UGX 3,465,411,000 in Year 4; and
  - 5. UGX 4,002,549,000 in Year 5.
  
- C. MGTFL's payroll will increase from UGX 559,163,000 in 2008 and UGX 536,368,000 in Year 1 to:
  - 1. UGX 596,761,000 in Year 2;
  - 2. UGX 650,470,000 in Year 3;
  - 3. UGX 709,012,000 in Year 4; and
  - 4. UGX 772,823,000 in Year 5.
  
- D. By the end of the Project at least fifty percent of shareholders will have purchased a minimum of 100 shares each.

**VI. Project Outputs**

By the end of the Project, the capacity of MGTFL to process and market green tea leaf will increase as evidenced by the following.

- A. Sales revenues increase from a baseline of UGX 6,212,920,000 in 2008 and UGX 5,719,134,000 in Year 1 to:
  - 1. UGX 6,605,600,000 in Year 2;
  - 2. UGX 7,629,468,000 in Year 3;
  - 3. UGX 8,812,035,000 in Year 4; and

4. UGX 10,177,901,000 in Year 5.
- B. Increased exports from a baseline of UGX 6,150,790 in 2008 and UGX 5,521,878,000 in Year 1 to:
1. UGX 6,377,769,000 in Year 2;
  2. UGX 7,366,323,000 in Year 3;
  3. UGX 8,508,103,000 in Year 4; and
  4. UGX 9,826,859,000 in Year 5.
- C. Annual volume of tea sold increased from 2,056 tons in 2008 to:
1. 2,159 tons in Year 1;
  2. 2,267 tons in Year 2;
  3. 2,380 tons in Year 3;
  4. 2,499 tons in Year 4; and
  5. 2,624 tons in Year 5.

## VII. Project Activities

MGTFL will ensure that the following major activities are implemented.

- A. Improve MGTFL's capacity to process quality green tea leaf by:
1. installation and upgrading of withering troughs, fans, and radiators to improve the overall quantity and quality of made tea;
  2. refurbishing and redesigning of storage bins;
  3. installation of sifter;
  4. installation of a 1000 KVA electricity transformer;
  5. initiating and completing the process of meeting the ISO:22000 Food Safety Management System Standard;
  6. undertaking a tea replanting program to cover 20 hectares of MGTFL's own estates while farmers plant 90 hectares;
  7. training farmers in tea agronomy;
  8. advising smallholder farmers to use manual weed control and mulches to reduce herbicide use and avoid the use of fertilizers that can volatilize easily (such as urea);
  9. ensuring that tea pluckers have adequate sanitary facilities to avoid disease problems or tea contamination;
  10. increasing the height of the chimney at the factory from ten (10) meters to twenty (20) meters; and
  11. installing a fire hydrant at the factory by the end of September 2009.
- B. Diversify MGTFL's markets for tea through branding its own packed tea for the local market. This will involve:
1. reviewing and redesigning the sachets for the packed tea to make them more appealing to the customers; and
  2. developing and implementing distinctive promotional and marketing strategies to popularize the packed tea within the Ugandan market. These

strategies will include:

- a. development of promotional materials;
- b. signing of agreements with electronic media houses;
- c. participating in shows and exhibitions; and
- d. organizing marketing campaigns for the local markets.

C. Improve the financial management of MGTFL by:

1. creating financial accounting sub-departments to enable the finance department to be more efficient and effective. The job descriptions and responsibilities of the departmental staff will also be re-aligned;
2. completing the establishment of an internal audit function and hiring an internal auditor to carry out regular interim audits;
3. developing an appropriate consolidated accounting system that better captures the company's forest and tea plantations operations and incorporate the accounts into the company-wide accounts; and
4. developing an appropriate financial reporting system for Kasunga training centre operations;

D. Improve governance and management operations of MGTFL by:

1. orienting the Board to their roles and responsibilities given that most of the current Board members are new. MGTFL will organize workshops on corporate governance and Board responsibilities as well as arrange for exchange visits;
2. implementing the Human Resource Manual with specific focus on performance appraisals, staff training and development, staff promotion, code of conduct and ethics, disciplinary and grievance procedures, staff leave, termination of service procedures, health and safety, HIV/AIDS at workplace as well as creating a non-discriminatory and caring workplace environment; and
3. carrying out training for all staff members as identified in the three year capacity building plan.

### VIII. Roles and Responsibilities

ADF's Partner in Uganda will provide the standard ADF training in bookkeeping, monitoring, and assessment. MGTFL is responsible for ensuring the proper management and implementation of the Project. The ADF Partner in Uganda will provide MGTFL with technical and management assistance during implementation.

### IX. Monitoring and Evaluation

ADF's Partner in Uganda will closely monitor the activities of MGTFL 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 MGTFL's quarterly reports and

will submit comments and observations to the management of MGTFL as part of the on-going performance assessment.

**X. Other implementation issues**

Through the Memorandum of Understanding that MGTFL signed with local government agencies, Mpanga's 782 farmer members will receive 1.6 million clonal tea seedlings to replace the majority of their old and lower yielding variety. On average, each farmer will receive 2,000 seedlings at no cost.

MGTFLP will implement the financial certification recommendations and the HR consultancy recommendations made during the EDI Project period as well as undertake the redeployment and recruitment of new staff.

The company will continue to comply with and abide by all the national and international environmental and food safety requirements as well as implement mitigation measures highlighted in the environmental study carried out during the EDI.