

**APPENDIX A:
PROJECT DESCRIPTION
Karatu Development Association (KDA) Micro-Finance Project - Tanzania**

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 as amending any of the definitions, conditions, or terms of the Agreement.

II. Background

Karatu Development Association (KDA) is a community-based organization operating in the rural Karatu district, one of the five administrative districts of Arusha region in Northern Tanzania. The Karatu district has an estimated population of 3,000 micro and small entrepreneurs who need access to credit. That number is expected to grow with the completion of the paved road from Arusha to Karatu. Given its limited resources, KDA, the only micro-finance institution operating in the district, is able to serve approximately 600 of these entrepreneurs.

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 in accordance with Article 7 of the Agreement and do not cause ADF's contribution to exceed the obligated amount specified in Article 3, Sections 1 of the Agreement.


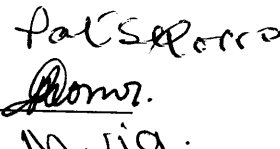
B. Grantee Contribution

Grantee Contribution

KDA will contribute office equipment (one double cabin pick-up truck, two motorcycles, computer, furniture and other office equipment) worth TShs. 34.54 million, building plot worth TSh. 6.0 million, and cash for revolving loan capital fund in the amount TSh. 67.152. KDA's total contribution to the Project is estimated at TShs. 102.29 million.

IV. Project Goal

The Project's goal is to raise the standard of living of the residents the Karatu District o Tanzania.

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V. Project Purpose

The purpose of the Project is to increase access to affordable financial services for micro and small entrepreneurs in Karatu District.

The Project purpose indicator:

The number MSEs accessing loans increased from a baseline of 574 to a total of 1,351 by year 5:

- Year one: 740
- Year two: 884
- Year three: 1,056
- Year four: 1,230
- Year five: 1,351

VI. Project Outputs

1. Coverage of KDA services increased:

- An increase in the net portfolio outstanding increased from a baseline of TZS 65 million, to TZS 310 million by the end of year 5;

- Year one: 124,000,000 Tzs
- Year two: 173,000,000 Tzs
- Year three: 221,000,000 Tzs
- Year four: 266,000,000 Tzs
- Year five: 310,000,000 Tzs

- Number of loans issued each year increased from a baseline of 650 loans in year one up to 1,351 loans in year five with repeat and step-up loans to both current and new clients:

- Year one: 740
- Year two: 884
- Year three: 1,056
- Year four: 1,230
- Year five: 1,351

2. KDA institutional sustainability improved:

- An increase in total financial income from TZS 13.8 million to TZS 130 million at the end of year five:

- Year one: 51,000,000 Tzs
- Year two: 71,000,000 Tzs
- Year three: 91,000,000 Tzs
- Year four: 110,000,000 Tzs
- Year five: 130,000,000 Tzs

- Operational sustainability increased from 124 percent to 159 per cent at the end of year five;

- Year one: 132 per cent

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- Year two: 137 per cent
 - Year three: 145 per cent
 - Year four: 157 per cent
 - Year five: 159 per cent
- Financial sustainability increased from 106 percent to 131 percent at the end of year five;
 - Year one: 117 per cent
 - Year two: 113 per cent
 - Year three: 118 per cent
 - Year four: 129 per cent
 - Year five: 131 per cent

VII. Major Activities to be financed under the Agreement

Impact and coverage of KDA services to be increased.

KDA is to expand its number of loans and the size of its loans by expanding its loan fund through the infusion of ADF capital.

Output KDA institutional sustainability improved.


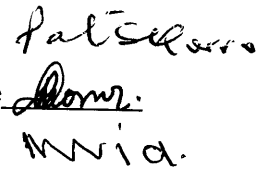
The larger capital and internally generated growth will result financial operational and institutional sustainability improvements.

Training and Technical Assistance. Consultants will train a total of 1,351 KDA clients in business development skills. Three hundred of the center chiefs and group leaders will be trained in group cohesion and loan center supervision. Ten members of the board and the management tea will be trained in MFI sustainability, credit lending policy and good governance. Seven members of the KDA management team will be trained in effective loan portfolio management using Loan Performer software.

The ADF Country Partner Centre for Strategic Development Initiatives (CSDI) staff will provide training to five staff members and five executive committee members on the ADF accounting system, best practices on financial management and the project performance assessment (PPA). The ADF required training will be carried out by the CSDI Finance Officer (FO) and CSDI Evaluation officer (EO).

VIII. Roles and Responsibilities of the Parties

KDA is responsible for the proper management and implementation of the project. The four member KDA management team is responsible for formulation and implementation of work plans and the day to day running of the organization. The board of trustees is empowered to be the custodian of all properties and liabilities of KDA.

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The ADF partner in Tanzania, CSDI, will provide technical and management assistance to SEF 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.

ADF *[Signature]* Grantee *[Signature]*
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