

**APPENDIX A:
PROJECT DESCRIPTION
MKONGE OUTGROWERS TEA PRODUCTION 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 A shall be construed as amending any of the definitions, conditions, or terms of the Agreement.

II. Background

Members of the Mkonge Tea Block Farm Cooperative Society (MTBF), like many other smallholder tea producers in Tanzania, need to increase their tea yields and tea quality in order to raise their incomes. According to the Tea Research Institute of Tanzania (TRIT), in 2003 Mkonge farmers cultivated 300 hectares of land that produced only 1,300 tons of green leaf tea. The average per hectare yield of green tea was approximately 4 tons. This yield is equivalent to 0.9 tons of processed tea per hectare compared to an average national of 2.3 tons per hectare.

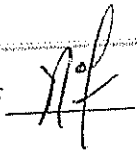
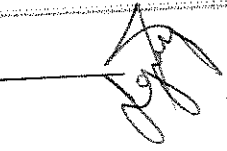
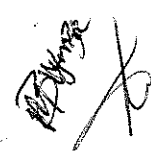

The farmers of MTBF have expanded their tea production since establishing the cooperative. However, weak government regulatory, administrative and support organizations, such as the Tanzania Tea Authority and the government owned tea-processing factories, have hampered the performance of MTBF. After privatization of the tea industry in the 1980s, farmers in Mkonge saw the opportunity to expand and improve their production of tea.

MTBF members estimate that approximately 300 percent of the local market in their area for tea is not being met. This gap between demand and supply indicates there is significant potential to increase incomes for MTBF's members and the additional 127 farmers in the area. However, due to the limited capacity of the Mkonge Outgrowers Association and the lack of funds to purchase and market the tea, the hope of expanding production and incomes is also limited.

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 3.1 of the Agreement.

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B. Grantee Contribution

Mkonge's executive leadership will provide administrative support (record keeping, managing, communications and basic monitoring). Members will also contribute their labor, equipment and nurseries to the Project.

IV. Project Goal

The goal of the Project is to improve the living standards of residents of the Mufindi District in Tanzania.

V. Project Purpose

The purpose of this Project is to increase the income of MTBF and its members as measured by:

- A. The average annual net income of the cooperative from Project activities will increase from TSh 75,320 to 353,000, 6,717,000, 9,165,000, 12,747,000 and 13,735,000 in years I, II, III, IV and V, respectively.
- B. The average annual net income of participating farmers from Project activities will increase from TSh 125,000 to 155,380, 103,993, 145,613, 238,215 and 305,440 in years I, II, III, IV and V, respectively.

VI. Outputs

The major output of the Project will be an increased capacity to produce and market quality green leaf tea.

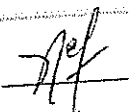
1. The number of MTBF principal beneficiaries will increase from 373 farmers to 500 by project year V.
2. The amount of green leaf tea produced will increase from 1,299 tons to 1,429 tons in Year I; 1,671 tons in Year II; 2,112 tons in Year III; 2,813 tons in Year IV; and 3,341 tons in Year V.
3. The number of hectares under cultivation will expand from 300 at the start of the Project to 450 by year 5.
4. MTBF annual sales of tea will increase from TSH 2.9 million to TSH 12.8 million in Year I; TSh 19.7 million in Year II; TSh 20.4 in Year III; TSh 21.3 million in Year IV; and TSh 22.5 million in Year V.

VII. Activities

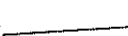
A. Tea Crop Production

The Project will focus on increasing yields and improving the quality of tea produced by MTBF's members. To this end, MTBF will implement activities involving crop husbandry, extension services, and provision of credit.

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Participating farmers will undertake all cultivation activities required to produce the crops. They will hire casual labor to help with the picking of the tea. To ensure that the farmers can compete with the tea estates for labor during the peak production months, the Grant provides funds for farmers to pay labors on the spot.

The Project will undertake the following activities to promote the quality and quantity of the farmers' produce.

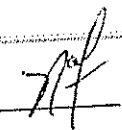

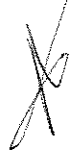


- MTBF will provide extension and production monitoring services to the farmers. The Grant provides funds to purchase an experienced extension agent on a full-time basis for at least twenty-four months and to purchase a vehicle to facilitate execution of these activities.
- MTBF will administer an input support revolving fund to provide credit to farmers for the acquisition of production inputs including fertilizer, herbicides, tools, protective gear, and seedlings. The Grant will contribute to this fund.
- MTBF will map and establish baseline data to plan for future land expansion. It will use ADF funds to conduct a field survey to determine farm sizes and potential areas available for expansion so that the future expansion can be based on existing soil, land and water information to further ensure that tea production goals can be met.
- A group of participating farmers will operate a nursery to increase the availability of tea tree seedlings for expanding the numbers of hectares under cultivation. The Grant provides funds for them to purchase seedlings for the nursery.

B. Institutional and Farmer Capacity Building

All participating farmers will receive training in agronomy, HIV/AIDS prevention, effective communication and agro-business management. Ten farmers selected to coordinate the sales at collection points will receive additional training in communication and agro-business management. Additionally, nine members of the executive committee and the chairperson will be trained in business management, leadership and good governance. In addition, MTBF will enhance its capacity by hiring an extension officer and bookkeeper/data entry clerk. The Grant provides funds for these activities.

VIII. Roles and Responsibilities of the Parties

MTBF is responsible for ensuring the proper management and implementation of the Project. MTBF will ensure a General Manager is in place at Project start-up to oversee the day-to-day activities. The ADF Partner in Tanzania, the Center for Sustainable Development (CSDI), will provide MTBF technical and management assistance during the implementation of the Project.

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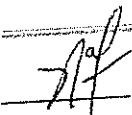
IX. Monitoring and Evaluation

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. 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. The Project provides for a motorcycle and office equipment to help MTBF improve its coordination, monitoring, and logistical capabilities.

X. Other Implementation Issues

MTBF will establish three bank accounts: (a) an account to manage the reinvestment funds; (b) an account to receive ADF funds; and (c) the MTBF current account. MTBF 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 on a quarterly basis (at a minimum) beginning as soon as the member groups receive their new equipment or start managing the new facilities, whichever comes earlier.

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