APPENDIX A:
INVESTMENT DESCRIPTION
Kilicafe Specialty Coffee Expansion - 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

The Association of Kilimanjaro Specialty Coffee Growers (AKSCG) provides a variety of services to member-farmers to improve the quality and profitability of its members' coffee. Mainly, AKSCG supports numerous farmer business groups (FBGs) to establish village-based "central pulperies". AKSCG has been unable to assist large numbers of farmers due to insufficient funds to invest in improved processing and testing technology and reduce reliance on third parties to grade their product's aroma and taste.

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 make ADF's contribution to exceed the obligated amount specified in Article 3, section 3.1 of the Agreement.

B. Client Contribution

AKSCG will contribute to the Association's existing fixed assets worth about TZS 9,077,104 plus working capital/ operating cash of TZS 113,051,000.

IV. Investment Goal

The goal of the investment is to improve the living standards of rural Tanzanian coffee farmers and their families.

V. Investment Purpose

The main purpose of the investment is to increase the incomes and employment of coffee farmers in AKSCG producing areas by strengthening the production capabilities and knowledge base of AKSCG as follows:

A. The association's net income before taxes and depreciation changed from the baseline of TZS 2,000,000[1] in FY 2005/06 to:

- TZS 188,677,000 in Year 1;
- TZS 394,768,000 in Year 2;
- TZS 416,172,000 in Year 3;
- TZS 442,602,000 in Year 4; and
- TZS 467,857,000 in Year 5; and beyond

B. Increased number of farmers[2] benefiting/ impacted by the investment in the CPUs from 1,500 in FY 2005/06 to:

- 1,500 farmers in Year 1;
- 2,100 farmers in Year 2;
- 2,800 farmers in Year 3;
- 3,150 farmers in Year 4; and
- 3,500 farmers in Year 5; and beyond.

VI. Outputs

The major output is increased capacity to produce specialty coffee that meets international market standards:

A. Association's sales revenue increased from the current baseline of TZS 2,851,654,509 in FY 2005/06 to:

- TZS 3,097,328,000 in Year 1;
- TZS 3,555,552,000 in Year 2;
- TZS 4,083,293,000 in Year 3;
- TZS 4,491,623,000 in Year 4;
- TZS 4,806,449,000 million in Year 5; and beyond.

B. Association's Value of Direct Exports[3] increased from the current baseline of TZS 612,267,350 in FY 2005/06 to:

- TZS 1,077,440,000 in Year 1;
- TZS 1,810,099,000 in Year 2;
- TZS 2,432,320,000 in Year 3;
- TZS 2,675,552,000 in Year 4;
- TZS 3,090,263,000 in Year 5; and beyond.

[1] Net income for 2004/5 was TAS 48.8 mln which reflected a fair picture, 2005/06 was abnormal because of A one-time payment on consultancy and recruitment of staff while sales dropped due to untimely approval of overdraft by our banker and shortage of rainfall.

[2] The optimum number of farmers for the 2.5mt/hr CPU is 400, year one will start with around 250, then grow to around 350.

[3] All the coffee is exported, direct export means sales made by AKSCG directly to customers outside the country without passing through National Coffee Auction (Moshi).

C. Number of CPUs (2.5 ton/hour capacity) in the targeted areas (Mbinga, Mbeya & Moshi) increased from the current baseline of zero to:

- 6 CPUs in Year 1;
- 7 CPUs in Year 2;
- 8 CPUs in Year 3;
- 9 CPUs in Year 4;
- 10 CPUs in Year 5.

D. Coffee processed at CPUs (green coffee equivalent in kgs.) in the target area increase from the current baseline of zero to:

- 288,000 kgs. in Year 1;
- 480,000 kgs. in Year 2;
- 573,000 kgs. in Year 3;
- 651,000 kgs. in Year 4;
- 729,000 kgs. in Year 5; and beyond.

VII. Activities

A. Importation and set-up of six CPU machines and accessories

- sign contract with beneficiary CPUs
- place order to Panagos
- port clearance and inland freight
- installation of machinery
- testing, on site training and commissioning

B. Building of CPU sheds

- land clearing and leveling at site
- construction of shed, fence, fermentation tanks and waste disposal facilities
- construction of drying tables

C. Establishment of a Cupping Lab, equipment, computer & software and furniture

- place order for cupping equipment from Kenya
- purchase office items locally
- installation of machinery

D. Website improvement and market promotion

- engage consultant for website update
- attend specialty coffee association meetings
- develop market samples for easy response to interested buyers

E. Capability training and talent development of the AKSCG staff

VIII. Roles and Responsibilities of the Parties

ADF's Partner in Tanzania will provide the necessary standard ADF training in bookkeeping, monitoring and assessment. AKSCG is responsible for ensuring the proper management and implementation of the Investment. The ADF Partner in Tanzania will provide AKSCG with technical and management assistance during implementation.
Technoserve has emeritus training status for AKSCG and will continue to provide assistance as needed.

IX. Monitoring and Evaluation

ADF's Partner in Tanzania will closely monitor the activities of AKSCG 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 ongoing coaching and advisory service. The Partner will review AKSCG's quarterly reports and will submit comments and observations to the management of AKSCG as a part of the on-going performance assessment.
Within sixty days of the effective date of this Agreement, the Client, working with the ADF Partner, will form a monitoring and assessment committee composed of a representative cross-section of the Client'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.