

APPENDIX A-
PROJECT DESCRIPTION
Busangwa Organic Cotton Certification - 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

In 2004, in response price incentives on the world market for small cotton farmers to produce certified organic cotton, 120 small farmers formed the community-based organization, Busangwa Organic Farmers Association (BOFA). Busangwa cotton farmers have been working together for over 40 years, a result of Tanzania's Ujamaa collective farming policies from 1974 to the early 1980's. BOFA assists member farmers in converting from production of conventional seed cotton to certified organic lint cotton, resulting in a price increase estimated to be over 48 percent greater than the price of conventional cotton. However, BOFA lacks adequate capacity to provide its members needed services related to crop production, certification, ginning, and marketing.

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.

B. Grantee Contribution

The Grantee is expected to contribute its existing fixed assets. Additionally, BOFA will contribute manual labor for cotton production field activities to offset part of the input costs estimated at Tanzanian Shillings (TZS) 16,200,000. BOFA will also contribute the following: (1) manual labor and locally available building materials (sand, stones, gravel, burned bricks, etc;) as well as land for the construction of warehouse cum office in Busangwa village, estimated at TZS 10 million; and (2) operating costs of the office for two years, estimated TZS 600,000. BOFA's total contribution is estimated at TZS 26,800,000.

IV. Project Goal

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The goal of the Project is to reduce poverty among BOFA members and their families.

V. Project Purpose

The purpose of the Project is to increase BOFA's capacity to implement an expansion strategy measured by the development of a comprehensive five-year business plan that ADF deems suitable for funding.

VI. Outputs

The major outputs of the Project are listed and their indicators are provided below.

- A. BOFA improves its capacity to deliver services to its members, as indicated by the following:
- BOFA's membership increases to at least 120 by year 2 of the Project from the current baseline of nine.¹
 - Membership fees paid to BOFA increases from the current amount of TZS 180,000 per year to at least TZS 2,400,000 per year by the end of the Project.
 - at least 120 farmers certified as **organic** by the end of Year 2 from the 2003-2004 baseline of 120 **conventional** cotton farmers;
 - by end of month 8 revolving loan fund established with minimum of TZS 66.4 million loan capital from the 2003/04 baseline of zero; and
 - by end of year 2 at least 120 input loans disbursed worth at least TZS 9.2 million from the 2003/04 of zero with at least 98 percent repayment.
- B. BOFA's ability to purchase, process and store cotton increases by:
1. at least 150 metric tons per year of certified organic cotton is purchased, ginned and marketed by BOFA at a premium price by the end of Year 2;
 2. at least 150 metric tons of seed cotton stored at BOFA's warehouse, generating a minimum of TZS 34.2 million per year in warehouse service fees by Year 2 from the current amount of zero.
- C. BOFA's organizational and management capacity is increased by:
1. at least eight (8) fulltime jobs are created within the Association by the end of Project Year 2 from the 2003-2004 baseline of one (1);
 2. a BOFA business plan with mission, vision, and strategic investment plan is developed and presented to ADF.
 3. Project targets are achieved, performance reports are prepared in a timely manner, and a remediation plan is submitted and implemented;

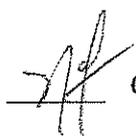
¹ A farmer is considered to be a member after paying TZS 20,000 per year membership fees and other contributions and agrees to the associations mission and vision

VII. ACTIVITIES

BOFA will undertake the following major activities:

- mobilize farmer members and complete the formal registration of the Association;
- finalize identification and recruitment of board members, as well as Project staff;
- establish financial, administrative and accounting systems (accounting books, bank accounts and signatories, lending and repayment collection mechanisms);
- establish systems and build capacity for the management of input and crop purchase revolving loan funds;
- construct and furnish office and warehouse;
- identify and contract reliable organic cotton certifiers;
- certify BOFA producer members in organic cotton production;
- identify and contract reliable and competent organic cotton ginner and buyers of the Grantee's organic cotton;
- provide technical training to BOFA member farmers in organic cotton production;
- implement trial (pilot) organic cotton production, certification, ginning and marketing activities;
- hire technical assistance to conduct a comprehensive review of the Association's production, financial, and marketing systems and recommend strategies for managing a profitable, accountable, and transparent organic cotton business; and
- develop a comprehensive business plan emphasizing the following aspects:
 - create a comprehensive marketing strategy indicating how the Grantee will contract and sell to the major local and international organic cotton buyers;
 - obtain letters of intent from buyers indicating terms and conditions;
 - investigate and determine how the business activities of Cooperative and its members will be financially viable in the short and long-term;
 - create a detailed plan that indicates how the Cooperative will efficiently manage a sustainable input support and crop purchase revolving loan fund, including: size and duration of loans, interest rates, default rates, and the loan collection process;
 - develop a member farmer credit management training needs assessment, training plan, and budget; and
 - develop a *Crop-purchase Warehouse Line-of-Credit* as the Cooperative's revenue generator, including aspects such as service fee charges, time frames and credit percentages for payments made upfront, overall risk analysis, the percentage of organic cotton to be purchased and stored, and strategies for dealing with the potential problem of side-selling by Cooperative members.

In addition, BOFA's members, staff and executive committee (board) will receive training in various disciplines aimed at improving performance and governance of the Association.

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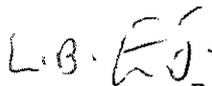
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VIII. Roles and Responsibilities of the Parties

The staff and elected leadership of BOFA are responsible for the management and the proper implementation of the Project. CSDI, ADF's partner in Tanzania, will provide training in the areas of management, ADF reporting, corporate and cooperative governance, and business planning. CSDI will also provide technical assistance to the members and leadership in those areas.

IX. Monitoring and Evaluation

Within sixty days of the effective date of this Agreement, the Grantee will form a monitoring and assessment committee composed of a representative cross-section of the Grantee's organization. The committee will develop a 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.

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