

PROJECT DESCRIPTION**Phoka Coffee Processing and Marketing****Malawi****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

Phoka Coffee Growers Co-Operative Society Limited (PCGCS) assists farmers to grow and market coffee in Mzuzu, Malawi. PCGCS would like to take advantage of unmet local demand; however, inconsistent product quality, outdated and obsolete technology, weak management capability, and low marketing capability prevent the company from capitalizing on the market demand.

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 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. Grantee Contribution

PCGCS will contribute the time and skills of its staff in the implementation of the Project.

IV. Project Goal

The goal of the Project is to improve the standard of living and economic welfare of the rural poor in Malawi.

V. Project Purpose

The purpose of the Project is to increase the income of PCGCS's employees and its suppliers as follows.

- A. PCGCS's net income (before taxes and depreciation) will increase from MWK 872,891 in the Project's base year to:

1. MWK 1,700,000 in Year 1;
 2. MWK 2,900,000 in Year 2; and
 3. MWK 4,400,000 in Year 3.
- B. Total salaries and wages paid to workers (full time and part time) will increase from MWK 1,327,733 in the Project's base year to:
1. MWK 1,100,000 in Year 1;
 2. MWK 1,300,000 in Year 2; and
 3. MWK 1,600,000 in Year 3.
- C. The value of raw materials purchased from farmers will increase from MWK 11,237,800 in the Project's base year to:
1. MWK 16,000,000 in Year 1;
 2. MWK 23,000,000 in Year 2; and
 3. MWK 31,000,000 in Year 3.

VI. Project Outputs

By the end of the Project period, the capacity of PCGCS to process and market coffee will increase as evidenced by the following.

- A. The number of total farmers supplying raw materials will increase from 534 farmers in the Project's base year to:
1. 590 farmers Year 1;
 2. 670 farmers Year 2; and
 3. 750 farmers Year 3.
- B. PCGCS's sales revenue will increase from MWK 18,729,667 in the Project's base year to:
1. MWK 26,000,000 in Year 1;
 2. MWK 38,000,000 in Year 2; and
 3. MWK 52,000,000 in Year 3.
- C. The volume of coffee cherries produced will increase from 322,000 kilograms in the Project's base year to:
1. 380,000 kilograms in Year 1;
 2. 460,000 kilograms in Year 2; and
 3. 550,000 kilograms in Year 3.
- D. The value of loans disbursed to members will increase from MWK 0 in the Project's base year and Year 1 to:
1. MWK 7,400,000 in Year 2; and
 2. MWK 9,200,000 in Year 3.

VII. Project Activities

PCGCS will ensure the following major activities are completed with the assistance of consultants where necessary.

- A. Improve the management and institutional capability of PCGCS by:
 1. training PCGCS board of directors on good governance;
 2. acquiring additional office equipment;
 3. purchasing a truck to deliver parchment to the processing plant and to transport working capital inputs; and
 4. establishing a more professional leadership core by recruiting and paying association staff including a credit associate.

- B. Institute improved financial and operating procedures by training PCGCS staff to use Pastel accounting software and revolving loan fund micro banking software.

- C. Improve coffee production systems by:
 1. improving product quality through acquisition and use of coffee processing equipment;
 2. undertaking an environmental analysis of the impact of the use of updated coffee processing equipment and taking necessary steps to mitigate any negative impact, including proper disposal of waste water and handling of other waste products;
 3. supplying revolving loan fund inputs;
 4. constructing pulper houses for the coffee processing units;
 5. visiting an organic coffee outgrowers association in Tanzania to learn from their experiences; and
 6. training farmers in best agronomic practices.

VIII. Roles and Responsibilities of the Parties

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

IX. Monitoring and Evaluation

ADF's partner in Malawi will closely monitor the activities of the Association to ensure proper reporting, adherence to the Project implementation plan by the Association and movement towards the achievement of Project objectives. The Partner will continuously assess risks and take remedial action as needed. Monitoring by the Partner will be an important aspect of the on-going coaching and advisory service. The Partner will review ADF's quarterly reports and will submit comments and observations to the management of the Association as part of the on-going performance assessment.