



INSTA PRODUCTS (EPZ) LIMITED

Grant Activity Report

16th April 2010

1. Beneficiary's Name: **Insta Products (EPZ) Limited**
2. Activity Name: **Ready to use therapeutic food expansion**
3. GRANT Tracking No: INS-STA-009-006
4. Advance Period: **15th December 2009 – 28th February 2010 (extended to 30th June 2010).**
5. Total Activity Budget: **US\$242,432**
6. Person reporting – Paul Wythe – Financial Consultant

INSTA PRODUCTS (EPZ) LIMITED
P.O. Box 1231-00606
Sarit Centre
Nairobi
Kenya



Athi-River Export Processing Zone
Twiga Close
Athi-River
Tel: + (254)-(0)45-22961/2
Tel/Fax: + (254)-(0)45-22357
E-mail: info@insta.co.ke

Program background

The program intends to increase RUTF productive capacity in Kenya and to increase demand for quality peanuts in the region. The statement of verifiable results is reproduced below.

- A. Installed capacity of the RUTF plant increases from 1500 MT to 4500 MT within three months of grant disbursement.
- B. Employment will increase by three people with the expansion. The expansion will safeguard the employment of 20 people, as running the factory at a capacity of 1500 MT is inefficient, and without expansion, it would be necessary to multi task and re-deploy some of the existing staff.
- C. For competitively priced RUTF, lead times for the supply of RUTF reduces from 12 weeks, from Europe, to four weeks from Insta, thus facilitating the efforts of the Humanitarian relief organizations.
- D. Insta sells RUTF to Humanitarian relief organisations at US\$4,300, or less, per metric tonne, thus providing the product at a lower price in Kenya than is currently available. Some relief organizations have reported incurring a landed cost in Kenya of over US\$6,000 per MT, as it is airfreighted owing to the urgency of need.
- E. Insta becomes a regional supplier of RUTF, through Humanitarian relief organizations who are based in Nairobi, but provide famine relief to a wider East Africa, and through marketing into Insta's designated territories (Eritrea, Somalia, Southern Sudan, Kenya, Tanzania, Uganda, Rwanda, Burundi, eastern DRC, and Madagascar).
- F. Insta will reinvest cash flow from RUTF to expand production up to 12,000 MT per annum, subject to attracting sufficient demand for the product.
- G. There will be an increased demand for peanuts in EA, with benefits to the smallholder sector and manufacturing. At 4,500 MT annual capacity, Insta will require 1,170 MT of peanut paste, an increase of 780 MT. If 12,000 MT production is achieved, then demand for peanut paste will be 3,120 MT per annum. As peanuts are grown by smallholders, this will lead to enhanced income for smallholders.
- H. There will be an increased demand for vegetable oil from local suppliers. The increase in capacity from 1500 MT to 4,500 MT will increase the requirement for vegetable oil by 600 MT, to 900MT.

Update on statement of verifiable results

- A. New machinery production is in progress. Delays in completing the grant application process and subsequent loan draw down have delayed delivery of the equipment. The equipment manufacturer has admitted that they have had too many orders, which has caused delays in manufacturing the order. Delivery is now expected in the third week of April 2010.

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- B. UNICEF have placed orders of approximately US\$3m. There have been some delays in ordering raw materials owing to a working capital shortage. Root Capital has agreed to provide a US\$300k facility and it is expected that Insta's main bankers will extend their current facilities.
- C. Insta lead times is currently somewhere between 3 and 6 weeks, depending on the size of the order and the amount of raw materials on order in the pipeline. This is expected to come down as a **local source** of milk powder has been identified – KCC. Insta has contracted to buy 10 MT per week, with KCC to give 6 weeks notice if it no longer wishes to supply Insta. Therefore, Insta is now assisting in absorbing excess milk in Kenya and providing a support to the underlying price paid to the smallholder sector.
- D. UNICEF pricing is US\$3890, based on a 4% discount for payment within ten days, whilst other organizations are being charged US\$4,300.
- E. Regional distribution is already in place with certain organizations such as EAS&L and ACF. UNICEF has indicated that it will utilize Insta for more of its Eastern Africa needs and reduce imports from Europe, providing Insta has the capability to supply.
- F. Cash flows remain constrained for now owing to working capital demands. Very significant process has been made with Root Capital to provide working capital to accelerate the development of the business. CFC Stanbic has also made significant progress in its decision making process for extending working capital finance to Insta.
- G. Insta is currently sourcing its peanut paste from South Africa and looking at a cheaper source from USA. Insta has made progress with its research into finding safe local peanut paste, in conjunction with Jetlak. See separate section for more details.
- H. The demand for vegetable oil has already increased with current production and with escalating orders, demand will continue to increase.

Updated grant timetable.

| No. | Description of activity | Benchmark / completion date (DD/MM/YY) | Revised timetable | Level of achievement |
|--------|---|--|-------------------|----------------------|
| Task 1 | Purchase and installation of additional RUTF capacity Grant application | Done | | Done |

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| | | | | |
|----------|---|----------|---------|--|
| Task 2.1 | Place order for machine with PMD | Done | | Done |
| Task 2.2 | Pay 40% of the pro forma invoice | 20/10/09 | | Done |
| Task 3.1 | PMD to manufacture machine | 25/11/09 | | Done |
| Task 3.2 | Trial [and machinery assembly] to be done in Kenya | 26/11/09 | | To start in April 2010 |
| Task 3.3 | Payment of 50% of machine – prior to shipment | 27/11/09 | | Paid April 2010 |
| Task 3.4 | Shipping from South Africa to Nairobi | 10/12/09 | 20/4/10 | |
| Task 4.1 | Installation of machine | 12/12/09 | 30/4/10 | |
| Task 4.2 | PMD technician to assist with installation and fine tuning of running | 14/12/09 | 30/4/10 | |
| Task 4.2 | Payment of 10% being final installment | 16/12/09 | 15/5/10 | |
| Task 5.1 | Commissioning of the packing machine including sanitizing of machine and running machine at commercial speeds | 16/12/09 | 15/5/10 | |
| Task 5.2 | Staff to be trained on the use of the machine, where the dual headed machine is different from the original machine | 16/12/09 | N/A | Two single headed machines being supplied so this is not an issue. |
| Task 5.3 | Test to ensure product | 16/12/09 | | |

| | | | | |
|------------------|---|----------|-----------|--|
| | meets the appropriate standard | | 15/5/10 | |
| Task 5.4 | Make payment to PMD for the cost of the technician and his flights | | 15/5/10 | |
| Benchmark | Production of RUTF increases from 1500 MT to 5000MT, annually. | | | |
| | | | | |
| | Improving the quality of peanut supply in East Africa | | | |
| Task 6 | Outgrower extension program | | | |
| Task 6.1 | Sign consultancy agreement with Karl Smarts | 10/11/09 | 7/3/10 | As there was a resource within Insta with experience of assisting peanut farmers in Uganda, an internal resource is being used. As the project develops, we may utilize KS |
| Task 6.2 | Order the Elisa test equipment | 31/10/09 | 17/4/2010 | Stuart Allison has this in hand. |

| | | | | |
|----------|--|-----------|----------|--|
| Task 6.3 | Order a supply of test kits to be used with the test equipment | 31/10/09 | 1/5/2010 | Waiting delivery of test equipment : Insta has its own supply which it is using for testing when required. |
| Task 6.4 | Program of work to be devised jointly by Stuart Allison and Karl Smarts | See below | | Mr Allison is providing an overview with Rolf Campbell and Paul Wythe providing direction to Donnie Harris |
| Task 6.5 | Karl Smarts to work with both local peanut paste manufacturers and set up testing facilities to assist in identifying unsafe product being supplied by farmers | See below | | See section below |
| Task 6.6 | Karl Smarts to work with peanut growers. | See below | | See section below |

Component: Improvement in supply chain for peanut paste

Activities completed in the period from 1st January 2010: (Previously reported in report for quarter ending 31/12/2010)

- Resource to manage project identified and following up all aspects of the project.
- Meeting with Mr Steven Humphries to discuss proposal received from Karl Smarts (Jan 10)

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- Meeting arranged with Jetlak to discuss potential for co-operation between Jetlak, Insta and Karl Smarts on peanut safety (Jan 10).
- Testing of current Jetlak product was completed in January 2010, and it found that Aflatoxin levels remain well above safe limits and one batch failed to meet the Coliform count requirements (>300 cfu / g) (Jan 2010).
- Strategy review of testing program between Stuart Allison and Paul Wythe to determine the next steps to be taken (Feb 10).
- Research undertaken into potential chemical dosing with Biox 5000 that can be done and contact made with Richard Stone-Wigg of Lachlan Kenya Limited, to verify cost effectiveness of using the product. This research is on-going, and could be a critical finding in terms of a cost effective solution to the Aflatoxin issue. A write up Biox 5000 is shown below. (Feb 10).
- Using an extensive network, contact has been made with an expert in respect of peanuts and Aflatoxin in South Africa – working protocols have yet to be established. (Feb 10).

Peanut improvement program

Peanut Improvement Project (PIP)

March Quarter Update

16 April 2010

Prepared by: Donnie Harris & Paul Wythe, Insta Products

Introduction

March represents my introduction to the PIP. The opportunity for building capacity at all levels in the peanut value chain in East Africa is well established. If all mechanisms for improving the quality and production capacity of the East African peanut value chain are implemented correctly it would push millions of dollars per year back down the value chain. The main area of development for the PIP is “Capacity Building”. In March steps were taken to identify all the participants in the value chain. Steps were also taken to identify mechanisms to improve capacity in the value chain.

Capacity Building Mechanisms

Value Chain Participants

Peanut Paste Customers- Insta Products

Peanut Processors/Paste Manufacturers- Jetlak, Healthy Foods

Peanut Distributors

Peanut Farmers

Mechanisms

Jetlak-

1. Setup of a micro-analysis lab including Elisa testing equipment. Jetlak has agreed to do this, and has adequate space at their facility to do this. Insta is working with Jetlak to help train staff, and set up the lab. If Jetlak can begin testing their peanut stocks in house it

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will enable one stop-gap lower in the peanut value chain, closer to the source. The closer the stop-gaps are to the original source the easier it will be to differentiate the premium peanuts from the low-quality peanuts. Stuart Allison has the ordering of the first two of the four test equipment in hand.

2. Source the highest quality peanuts available in the market. Insta has requested that Jetlak manufacture a small quantity of paste using the highest quality of peanuts they can source in the East African market. Insta has requested Jetlak to manufacture no more than one metric ton so that it will be easier to fully analyze the quality of the product and analyze the processes.

Networking

Follow up on an Aflatoxin / peanut processing has already been completed with some promising responses. Dr Jack Aston, the supplier of Biox 5000 and G Guthrie of South Africa have all provided a positive feedback following initial contacts.

A training grant has been secured from AMSCO amounting to over US\$30,000 to assist with Insta training projects including training programs to assist with value chain improvements. This will assist with funding training initiatives.

Summary

The actions taken in January-March represent short term and mid term activities. If these activities prove that East Africa may indeed be able to meet the needs of Insta then it will be easier to persuade value chain participants of the market opportunity that does exist.

Program for next quarter

1. Work with Jetlak and establish testing at Jetlak with Insat support. Jetlak will assist with identifying suppliers of clean peanuts.
2. Network and see if there are stakeholders who would be prepared to sponsor a test site and utilize Biox 5000 with smallholders.
3. Work with Lachlan Kenya to determine a cost effective solution to preventing Aflatoxin. (On-going).
4. Utilise grant money to buy first two Elisa test equipment and determine where to deploy, utilizing findings from 1 and 2. (April 2010).
5. D Harris to monitor testing program decided upon following information obtained from 1 & 2.
6. Develop post harvest drying mechanisms that reduce spread of Aflatoxin (April 2010 – SA).
7. Conduct further site visits to peanut paste manufacturers and select two for purposes of supplying peanut paste to Insta (Apr 2010).
8. Arrange contracts for the supply of high quality peanut paste to the selected manufacturers, with stringent safeguards built into track and traceability of peanuts and manufacture (depends how quickly clean peanuts can be sourced). (See PIP above).
9. Expand program depending on cost efficiency of local peanuts.

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Other

The visit by USAID COMPETE to the site was very welcome.

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