

Format for Quarterly and Final Completion Reports for COMPETE Grants

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| P F Tracking Number: | TSA-STA-010-017 |
| Title of Activity: | Scaling Up Kenyan Fair Trade Macadamia Exports |
| Start Date of Reporting Period: | October 1, 2010 |
| End Date of Report: | December 31, 2010 |
| Date Report Submitted: | January 18, 2011 |

Narrative reports must contain, as a minimum, the following:

- A comparison of actual accomplishments with the goals and objectives established for the period. Particular achievements and obstacles to the success of the project should be reported in specific terms.

| | Goal | Achieved to date |
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| 1 | Relocate and improve plant equipment to achieve full food grade processing capacity as verified by the Kenyan Bureau of Standards. | KEBS certification achieved for first product shipped to US customer on 17 August 2010. |
| 2 | Increase plant capacity to allow processing of 100 tons/season (two seasons) | Plant capacity has improved with the installation of a new NIS (nuts in shell) grader. Processing now at 400 kg per day. This is the equivalent of roughly 60 tons per season. Additional equipment upgrades are pending. |
| 3 | Purchase 200 tons of macadamia from Meru and Taita growers associations, at a value of 6 million Ksh (Fair trade minimum price of 30 Ksh/kg). | In the 2010 season, we have purchased a total of 69.272 tons. Of this, 35.017 Kg was from Taita, 11,085 kg was from Meru, 22,594 Kg was from Embu, and 576 Kg from other suppliers. A total payment to the farmers was made to farmers of 5,088,705 Ksh. Note that due to an overall global shortage of macadamia, the price averaged 73 Ksh/kg. |
| 4 | Provide 1 million Ksh in social premiums for investment in community projects to the Meru/Chogoria and Taita grower | Since Fair Trade status was achieved by the first farmer group only at the end of 2010, social premiums were not paid. However, the following |

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| | associations (social premium of 5 Ksh/kg) | payments were made to and on behalf of the farmer associations: - Farmer training: Ksh 36 500 - Organic and FT audit: Ksh 1 488 992 Total: Ksh 1 525 492 |
| 5 | Provide 1 million Ksh in fees to the associations for the collection and storage of macadamia on behalf of TSA. | In 2010, the following payments were made to the associations: Storage: Ksh 59 245 Capacity Building: Ksh 157 784 Total: Ksh 217 029 The main reason for this lower than expected amount was that the only association that TSA is able to partner with is WAMATTA. Associations in other places are still in formation. In the 2011 season this value should be much higher. |
| | Achieve Fair Trade certification (FLO advanced, introductory already obtained) and organic certification for macadamia for the two farmer's associations | The Taita grower association (WAMATTA) was received their fair trade certification on November 2, 2011, which is valid for three years. WAMATTA is the first macadamia farmer group in the world to be fair trade certified. A copy of the certification is attached. Ten Senses Africa received their Fair Trade certificate on November 25, 2010, to allow the export of Fair Trade certified nuts. The Organic audit for WAMATTA Took place July 12-17, 2010. This resulted in 80% of the product being compliant to Organic standards. TSA is currently evaluating which new farmer group to engage in the Fair Trade audit for 2011, as some groups with perhaps more potential than the Meru group have emerged. Decision to be made by the end of January, 2011. |
| 7 | Provide technical assistance to the growers in Meru and Taita that will result in a decrease in rejection rate and an increased yield of (to 25% of finished product as volume of nuts purchased) | Ten Senses has contracted with Farm to Fork Ltd. to provide technical assistance to farmer groups. This consulting is ongoing. |
| 8 | Provide technical assistance to the grower associations in Meru and Taita that will result in increased ability to manage their association for the benefit of the members. | Part of the compliance for WAMATTA to achieve Fair Trade certification was the holding of democratic and transparent elections, which was done in 2010. |
| 9 | Export 50 MT of processed nuts, of which at least 30 tons to the US market. This represents a sales goal of \$240 000 or 17 million Ksh (40 000 kg @ \$6/kg) | A total of 10.2 MT was shipped to the European and US markets from the 2010 harvest. Further shipments are currently being processed from nuts purchased at the end of 2010. A main reason for this lower than planned volume is explained below. |
| 10 | Extend the partnership agreement to one additional grower's group, with at least 500 members | TSA is currently deciding on a farmer group to focus on in advance of the 2011 season. This will be either in Meru, Embu or Muranga. |

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| 11 | Create stable employment for at least 35 staff in the Nairobi factory | Currently, the factory has 60 workers in two shifts, of which 5 are permanent positions, and the rest casual positions. |
| 12 | Create a social enterprise which will model corporate social responsibility in Kenya. The TSA board is committed to provide financial and in-kind support to an orphanage in the Kawangware slum in Nairobi. | There has been no progress toward this goal at this time. Plans are underway to develop a partnership with a local orphanage to deliver excess shells for use as fuel. |

- An evaluation or analysis of the degree to which the grant activities are achieving the project objectives. Reasons why established goals were not met if appropriate.

The most serious set-back during this period occurred in October, 2010. The boiler to the factory exploded, resulting in serious loss of product, as well as setting back production and shipments for almost 6 weeks. This came at a very bad time for the company in terms of meeting production and shipping targets.

Thankfully, there was no injury and the damage has been repaired and production resumed. The customers have shown understanding, and shipments have picked up in recent weeks.

- Other pertinent information including, when appropriate, analysis and explanation of cost overruns or high unit costs.

At this point the main cost overruns the Organic Audit (overspend of \$690) and Bank Charges (overspend of \$371). Most significant is the former, as the auditor needed to add more than expected time to complete the audit. As noted, this audit will likely need to be repeated again next year and other financial sources will need to be located to complete this. We are in discussion with Verde Ventures and SlovakAid, who have both indicated a willingness to consider supporting the revision of the organic audit in 2011.

Beginning in February, 2011 a number of major equipment upgrades will take place in the factory which will allow for TSA to roughly double the volume of nuts able to be processed.

A partnership agreement has been established with Pakka Trade, Zurich, which will allow TSA to access to major food processing companies.

- A minimum of five copies of any publication funded under the grant, including books, brochures, newsletters, bulletins, video cassettes; and single copies of all other products such as newspaper clippings, project announcements, and audited financial statements.

Not applicable for this reporting period