PROJECT DESCRIPTION

Kadande Rice Capacity Building Project

Zambia

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 Kadande Farmers Group (KFG) is a cooperative of rice farmers in Zambia's Chama District. KFG provides extension services to its members and connects individual farmers to wholesale purchasers, such as Zambia's Food Reserve Agency. High urban demand for rice has prompted more wholesale companies to express interest in purchasing rice from KFG. Currently, the Cooperative is not able to take advantage of this market opportunity because it has limited managerial capacity, no financial system in place, lacks the appropriate equipment and facilities to produce and store the processed rice the market demands, and lacks the capacity to assist farmers to purchase seeds and fertilizer.

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 4 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

Kadande Farmers Group will contribute their land, which is 85 hectares, members' tools and implements, KFG's subscription fees, and labor to the completion of the Project.

IV. Project Goal

The goal of the Project is to improve the standard of living of poor rice farmers in Chama Province of Zambia

V. Project Purpose

The purpose of the Project is to improve KFG's prospects for sustained expansion as indicated by the development of a comprehensive five-year business plan that ADF deems suitable for funding by a donor or other financial institution.

VI. Outputs

A. Improved financial management as evidenced by:

1. KFG produces financial statements and reports that include monthly income, balance sheet and cash flow statements, consolidated quarterly and annual statements, and it establishes adequate financial controls, accounting procedures, policies, and systems that meet international audit standards; and

2. the management team routinely utilizes the management and financial reports produced such as performance reports, budget expenditures, profit and loss statements, cash flow statements, and balance sheets in making financial and management decisions for the Cooperative.

B. Improved business management capacity as evidenced by:

1. a functioning and active board of directors meets quarterly to assess management implementation progress and addresses implementation constraints necessary to move the organization forward; and

2. the board convenes the Annual General Meeting (AGM) in accord with its constitution to update members on KFG's on-going activities.

C. Improved marketing capacity as evidenced by KFG establishes at least one new formal market outlet and obtains of letter of intent from the buyer to purchase rice in bulk from KFG.

VII. Activities

A. Financial Management Improvements

1. KFG will hire an accountant who will manage the financial system of the Cooperative. The accountant will be responsible for setting up internal control systems, recording financial transactions, and reporting the financial status of the Cooperative to the board. The accountant will be hired by month four of Project Year 1.

2. KFG will hire a consultant with expertise in financial management on a short term contract to work closely with the KFG accountant to develop appropriate financial accounting procedures, policies, and systems that will ensure timely and accurate financial reporting, with the intent of meeting ADF's financial certification requirements by the end of the Project. The financial consultant will work with the accountant to document the financial systems developed in a financial management manual. Once the financial system is in place, the consultant will provide follow-up training where necessary and assess the implementation of the financial system by conducting quarterly visits to the Cooperative. Financial systems will be established by month eight of Project Year 1 and follow up services will be provided on a quarterly basis.

B. Business Management Improvements

1. KFG will hire a business manager responsible for overall management of the Cooperative and specifically will be responsible for coordinating production contracts, procurements, processing, packaging, and marketing of rice. The business manager will be hired by month four of Project Year 1.

2. KFG will establish an office for its management team. The office will be equipped with computers, computer accessories, office furniture, and internet connectivity. The office will be fully equipped by month six of Project year 1.

3. KFG will hire a consultant to develop, in consultation with management, administrative policies, procedures, and guidelines to guide the operations of the Cooperative. The administrative system will focus on personnel policy, safety and security procedures, procurement, and use of Cooperative assets, and will be documented in an administrative manual. An administrative manual will be completed and in operation by month nine of Project Year 1.

4. KFG will hire a consultant to develop, in consultation with management, governance policies, procedures, and guidelines. The governance system will focus on principles of good governance, rules of conduct of board members, functions of the board of directors, conduct at the Annual General Meeting (AGM), issues of conflict of interest, and financial responsibilities of the board, and will be documented in governance manual. A governance manual will be completed and in operation by month nine of Project Year 1.

5. KFG management and board will be trained in good corporate governance and strategic planning. The training will be conducted during several sessions and will be completed by month eleven of Project Year 1.

C. Operational and Marketing Improvement

1. KFG will strengthen the extension delivery system by purchasing a motorbike for use by the business manager. The motorbike will be purchased and in use by month six of the Project Year 1.

2. KFG will improve the Cooperative's capacity to manage a purchase fund by establishing a pilot crop purchase fund and rice seed for multiplication purposes. KFG will begin using the purchase fund during the beginning of harvest season. KFG will purchase rice seed by month six of Project Year 1.

3. KFG farmers will receive training in sustainable agriculture, internal control systems, and seed multiplication to be complete by month five of Project Year 1. By month 12 of the Project, KFG will attain membership in Organic Producers and Processors Association of Zambia.

4. KFG will lease a warehouse during the harvest season to store paddy rice that it purchases from member farmers. A consultant will train the management team, board of directors, and selected members in warehouse management by month eight of Project Year 1.

5. KFG will purchase and operate a rice mill and equipment including a platform scale, a hook scale, tarpaulins, a moisture meter, probes, pallets, and protective clothing. KFG mill operators will be trained in maintenance and repair of milling equipment. The rice mill and equipment will be in use by month nine of Project Year 1. Training will be completed by month eight of Project Year 1.

6. KFG will hire a consultant to develop, in consultation with management, an operations manual. The operations manual will provide guidelines on how to develop annual work plans and budgets, formalized crop purchase methods including transportation logistics, storage, and marketing including characteristics of principle markets. The operations manual will be completed and used by the Cooperative management by month eleven of Project Year 1.

7. KFG's management team and board of directors will attend training in enterprise development and marketing. The training will help KFG identify new markets and negotiate prices with potential customers. Training will be complete by month 8 of Project Year 1.

8. KFG farmers will undertake a study tour to another similar rice group by month one of Project Year 2.

D. Business Plan Development

KFG will hire a consultant to work closely with the management team and board to develop a comprehensive five-year business plan complete by month three of Project Year 2. The business plan will address the following:

1. analyze the best organization and staffing structure to operate a sustainable and profitable business. This will involve analyzing KFG's organizational structure;

2. assess and recommend product lines that KFG can develop based on the relative profitability and feasibility of production of each. Provide strategies for penetrating markets for product lines recommended;

3. analyze international markets for organic rice, including quality, certifications required and quantity needed. Provide strategy for entering export market for organic rice;

4. define the fee and commission structure for KFG members for each of its products and service lines;

5. provide strategies for integrating more KFG farmers into the Project for it to be sustainable;

6. assess the manpower, training and technical assistance requirements for expansion of production;

7. provide five-year production and profit and loss projections based on current production, costs and sales trends;

8. provide a detailed plan for the disposal of waste products from rice processing; and

9. undertake any additional analyses that will prepare the Cooperative for expansion and sustained growth, to be determined during the design process of the business plan and through implementation of this Project.

VIII. Roles and Responsibilities of the Parties

The staff and elected leadership of KFG are responsible for the management and the proper implementation of the Project. ZATAC, ADF's Partner in Zambia, will provide training in the area of standard ADF bookkeeping, monitoring, and assessment. ZATAC will also provide technical assistance and management during implementation.

IX. Monitoring and Evaluation

ADF's Partner in Zambia will closely monitor the activities of the Cooperative to ensure proper reporting, adherence to the Project implementation plan by the Cooperative, 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 Cooperative as part of the on-going performance assessment.