

PROJECT DESCRIPTION**Makumbi Dairy Cooperative 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

Makumbi Cooperative Society Limited (MCSL) markets agricultural products supplied by its members. The Cooperative has identified the production of raw milk as having strong market potential given the large unmet demand in Zambia for raw milk. At present, the Cooperative has limited business and financial management capacity, does not have the financial capacity to purchase the materials and equipment for a dairy enterprise, and has several members with limited skills in dairy production.

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

MCSL will contribute its existing assets which include 300 hectares of land, irrigation equipment, three tractors, one two-ton truck, one 15-ton truck, two deep freezers, one generator, and a building for the office. MCSL will also cover the salaries for the production supervisors and operating costs.

IV. Project Goal

The goal of the project is to promote the growth of small scale milk enterprises that improve the standard of living of milk producers in Copperbelt Province of Zambia.

V. Project Purpose

The purpose of the project is to improve MCSL'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 institutions.

VI. Outputs

- A. Improved financial management as evidenced by:
1. MCSL produces financial statements from the financial and accounting system that include monthly income, balance sheet, and cash flow statements, consolidated quarterly and annual statements, adequate financial controls, accounting procedures, policies and systems that meet international audit standards; and
 2. the management team routinely utilizing 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.
- B. Improved business management capacity as evidenced by a functioning and active board of directors that meets quarterly to assess management implementation progress and addresses implementation constraints necessary to move the organization forward. In addition, the board convenes the Annual General Meeting (AGM) in accord with its constitution to update members on MCSL's on-going activities.
- C. MCSL improves its marketing capacity as evidenced by MCSL expanding to two main markets and obtaining letters of intent from buyers in each market.

VII. Activities

- A. Financial Management Improvements
1. MCSL will hire a bookkeeper who will manage the financial systems of the Cooperative. The bookkeeper will be hired by month four of Project Year 1.
 2. MCSL will hire a consultant with expertise in financial management on a short-term contract to work closely with the MCSL bookkeeper to develop appropriate financial accounting procedures, policies and systems that will ensure timely and accurate financial reporting that will meet ADF's financial certification requirements by the end of the Project. The consultant will work with the MCSL bookkeeper 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 MCSL. Financial systems will be established by month six of Project Year 1 and follow-up services will be provided on a quarterly basis for an additional two quarters.
- B. Management Improvements
1. MCSL will hire a business manager responsible for the overall management of the milking business. The business manager will be hired by month four of Project Year 1.
 2. MCSL will equip its existing office with one desktop computer, computer accessories, accounting software to be used by the accountant, and office

furniture. The MCSL office will be fully equipped by month six of Project Year 1.

3. MCSL will hire a consultant to develop, in consultation with MCSL management, administrative policies, procedures and guidelines to guide the operations of MCSL. The administrative systems will focus on personnel policy, safety and security procedures, procurement and use of MCSL assets and will be documented in an administrative manual. An administrative manual will be complete and in operation by month seven of Project Year 1.
4. MCSL will hire a consultant to review its registration status, organizational structure, membership, benefits to members and decision making processes. The consultant will provide recommendations for proper governance of the Cooperative to be documented in a governance manual complete by month nine of Project Year 1.
5. MCSL management team and board of directors will be trained in good governance practices and the application of the governance manual. Training will be complete by month ten of Project Year 1.

C. Operational and Marketing Improvements

1. MCSL dairy members will be trained in animal husbandry best practices, pasture and fodder production, and feed formulation. Management and selected farmers will also be trained in milk handling and testing, AI insemination, and marketing methods. Training will be conducted at several sessions and will be complete by month eight of Project Year 1.
2. MCSL will purchase ten in-calf dairy animals, milk cans, milking buckets, milk testing equipment, and an AI Kit. They will also purchase pasture seed and chemicals for testing milk. All equipment and items will be purchased by month seven of Project Year 1. Major purchases of capital items made before financial systems are in place will be disbursed directly to third party vendors.
3. MCSL will hire a consultant to develop, in consultation with MCSL management, an operations manual that will guide the operations of the management team. The operations manual will focus on guidelines for how to develop annual work plans and budgets, best practices in dairy management, formalized milk collection methods, recording of production, testing of milk, storage of milk, transportation logistics of getting milk to market. The operations manual will be complete and used by MCSL management by month nine of Project Year 1.
4. Management and selected board members will conduct a study tour to Mpika Dairy Farmers Cooperative Society Limited, a successful dairy enterprise assisted by ADF that is now in the expansion phase. The study tour will provide valuable information to MCSL regarding the proper management of a dairy enterprise and will provide them a model of a successful enterprise. The study tour will be complete by month eight of Project Year 1.
5. MCSL will obtain a trading license from the Zambian authorities to trade in milk by the end of the Project.

D. Business Plan Development

MCSL will hire a consultant that will work closely with the management team and board to develop a comprehensive five-year business plan. The business plan will be completed by month ten of Project Year 1. The business plan will address the following:

1. assess the production capacity of MCSL and its management capabilities with the aim of identifying weaknesses and the Cooperative's potential for expansion at the end of the Project;
2. conduct a market analysis of existing and potential product lines, including competitors, additional markets in Zambia and internationally. Provide strategies for penetrating markets for product lines recommended;
3. identify and assess the technology options, technical capacity needed and manpower for each of the potential product lines and for expansion of existing products;
4. recommend a strategy for business expansion based on the analysis of the costs and potential market, recommend additional product lines that MCSL can develop and services MCSL can provide based on the relative profitability and feasibility of each;
5. identify the beneficiaries of MCSL's operations and develop appropriate systems of measuring the benefits;
6. provide five-year production and profit and loss projections based on current production, costs and sales trends;
7. recommend the price structure for MCSL products and services and establish a framework for distributing profits generated from the business ventures to the individual farmer members; and
8. include any other additional analysis that will prepare the organization for expansion and sustained growth, to be determined during the design process of the business plan and implementation of this Project.

VIII. Roles and Responsibilities of the Parties

The staff and elected leadership of MCSL 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 MCSL 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 MCSL as part of the on-going performance assessment.