

PROJECT DESCRIPTION**Mongu 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

Mongu Dairy Cooperative Society Limited (MDCSL) is a cooperative society made up of small-scale farmers and is based in Mongu District in the Western Province of Zambia. Members have a market opportunity to produce and sell their milk through the Cooperative, a product that is in high demand. However, the Cooperative is unable to deliver its product to the market in a cost effective manner. In addition, its members have inadequate management and operational skills to manage the business sustainably.

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

Mongu Dairy Cooperative Society Limited (MDCSL) will contribute its land, a milk collection center, its seven milk selling points, members' animals and members' labor.

IV. Project Goal

The goal of the Project is to improve the standard of living of cattle farmers in Mongu district in the Western Province of Zambia.

V. Project Purpose

The purpose of the Project is to improve MDCSL'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.

ADF



MDCSL



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VI. Outputs

- A. Improved financial management as evidenced by:
1. MDCSL produces financial statements that include monthly income, balance sheet and cash flow statements, consolidated quarterly and annual statements, and implements adequate financial controls, accounting procedures, policies, and systems that can be readily audited; and
 2. MDCSL's management team routinely utilizes financial documents produced during the Project 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 company forward; and
 2. the board convenes the Annual General Meeting (AGM) in accord with its constitution to update members on MDCSL's on-going activities.
- C. MDCSL will improve its operational capacity by implementing formalized and regular payments to farmers for milk delivered as demonstrated by the Cooperative's record keeping.

VII. Activities

- A. Financial Management Improvements
1. MDCSL will hire an accountant to 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. MDCSL will hire a consultant with expertise in financial management on a short term contract to work closely with the MDCSL 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 management 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 company. Financial systems will be established by month eight of Project Year 1 and follow up services will be provided on a quarterly basis.

3. The board and management will receive training in financial management. The training will teach participants financial management and control techniques following the development of financial management systems by the consultant. The training will be completed by month eight of Project Year 1.

B. Business Management Improvements

1. MDCSL will hire a business manager responsible for overall day-to-day management of the Cooperative. Specifically, the business manager will be responsible for coordinating contracts, procurements, packaging, and marketing of milk. The business manager will be hired by month four of Project Year 1.
2. MDCSL will establish an office in Mongu for its management team. The office will be equipped with computers, computer accessories, and office furniture. The office will be fully equipped by month six of Project Year 1.
3. MDCSL will hire a consultant to develop, in consultation with management, governance policies, procedures, and guidelines. The governance systems 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 a governance manual. A governance manual will be completed and be in operation by month seven of Project Year 1 with follow up services provided on a quarterly basis.
4. MDCSL board, management, and members will be trained in good governance so the board and all members understand their formal roles and responsibilities, including understanding the constitution and the governance manual. The training will be completed during several sessions by month nine of Project Year 1.
5. MDCSL will hire a consultant to develop, in consultation with management, administrative policies, procedures, and guidelines to guide the operations of the Cooperative. The administrative systems will focus on personnel policy, safety and security procedures, procurement, and use of Cooperative assets, and will be documented in an administrative manual. The administrative manual will be completed and in operation by month nine of Project Year 1 and follow up services will be provided on a quarterly basis.
6. The Board, management team, and all members will be trained in enterprise development and marketing. The training will focus on providing an understanding to all members of best business practices. The training will be completed by month ten of Project Year 1.

C. Technical Capacity Building

1. MDCSL will hire a consultant to develop, in consultation with management, an operational manual. The operational manual will provide guidelines on how to develop annual work plans and budgets, establish formalized methods for purchasing and transporting milk from the MCC, and guidelines for handling and storing milk hygienically. The operational manual will also govern the milk

purchase fund, under which MDCSL will purchase milk from member cattle farmers and store and sell it to the market. The operational manual will be completed and used by the Cooperative management by month eight of Project Year 1 with follow up services provided on a quarterly basis.

2. MDCSL board, management, and selected members will be trained in how to manage a milk purchase fund and extend credit to members. The training will be completed by month nine of Project Year 1. Specifically, MDCSL will implement a revolving milk purchase fund and provide milk cans to members on credit.
3. MDCSL will establish a credit fund for the purchase of milk cans to members beginning in month ten of Year 1.
4. MDCSL will establish a pilot milk purchase fund to facilitate the purchase of milk from members at the Cooperative's milk collection center. The milk collection center will be equipped with a digital weighing scale. The weighing scale will be purchased by month nine of Project Year 1. The milk purchase fund will be established by month ten of Project Year 1.
5. MDCSL will hire a consultant to conduct a training workshop in Mongu, where all members will learn dairy production, disease management, and milk handling and hygiene by month nine of Project Year 1.
6. MDCSL will purchase a light truck to facilitate the transportation of milk from farmers to the collection center and from the collection center to the Cooperative's buying points by month ten of Year 1. MDCSL will hire a driver for the light truck beginning in month ten of Year 1.
7. MDCSL will purchase a generator to run the milk chilling tank during power outages. The generator will be purchased by month eight of Project Year 1.

D. Business Plan Development

MDCSL will hire a consultant to work closely with the management team and board to develop a comprehensive five-year business plan. 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 MDCSL's organizational structure;
2. conduct a market analysis of existing and potential product lines, including competitors and 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. provide strategies for integrating more area farmers into the milk collection center business so as to increase the volumes of milk marketed and the center's profitability;
5. recommend the price structure for the Cooperative's products and services and establish a framework for distributing profits generated from the business ventures to the individual farmer members;
6. assess the manpower, training, and technical assistance requirements for expansion of the Cooperative;
7. provide five-year production and profit and loss projections based on current production, costs, and sales trends; and
8. 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 MDCSL 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.

X. Other Implementation Issues

ADF's Partner in Zambia will closely monitor MDCSL's construction of a drainage system for the proper disposal of all effluent resulting from the cleaning of the bulk tank, milk cans, milk buckets, and bulking room floors to ensure an adequately hygienic environment.