

PROJECT DESCRIPTION**Zikometso Birds Eye Chili Processing and Marketing****Malawi****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

Zikometso Smallholder Farmers Association (Zikometso) is an association located in the Southern Region of Malawi. The association assists farmers to grow and market Birds Eye chilies. Zikometso would like to take advantage of unmet local market demand; however, outdated and obsolete technology, lack of working capital, and low marketing capability prevent the company from capitalizing on the market demand.

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

Zikometso will contribute the time and skills of its staff in the implementation of the Project.

IV. Project Goal

The goal of the Project is to improve the standard of living for farmers in the Southern Region of Malawi.

V. Project Purpose

The purpose of the Project is to increase the income of Zikometso's employees and its suppliers as follows.

- A. Zikometso's net income (before taxes and depreciation) will change from the current baseline of MWK (1,502,887) to:
1. MWK (1,900,000) in Year 1;
 2. MWK 199,000 in Year 2;
 3. MWK 7,500,000 in Year 3; and
 4. MWK 8,600,000 in Year 4.
- B. Total salaries and wages paid to workers (full time and part time) will change from MWK 1,855,042 in the Project's base year to:
1. MWK 1,854,000 in Year 1;
 2. MWK 2,000,000 in Year 2;
 3. MWK 2,000,000 in Year 3; and
 4. MWK 2,400,000 in Year 4.
- C. The value of raw materials purchased from farmers will increase from MWK 0 in the Project's base year to:
1. MWK 1,650,000 in Year 1;
 2. MWK 5,500,000 in Year 2;
 3. MWK 14,700,000 in Year 3; and
 4. MWK 16,500,000 in Year 4.
- D. The value of raw materials purchased directly by NASFAM from the farmers will increase from MWK 24,291,954 in the Project's base year to:
1. MWK 26,700,000 in Year 1;
 2. MWK 29,300,000 in Year 2;
 3. MWK 32,300,000 in Year 3; and
 4. MWK 35,500,000 in Year 4.

VI. Project Outputs

By the end of the Project period, the capacity of Zikometso and its members to process and market Birds Eye chilies will increase as evidenced by the following.

- A. Increase in Zikometso's sales revenue from MWK 2,581,920 in the Project base year to:
1. MWK 5,800,000 in Year 1;
 2. MWK 12,500,000 in Year 2;
 3. MWK 28,000,000 in Year 3; and
 4. MWK 31,000,000 in Year 4.
- B. Increase in the number of total farmers supplying raw materials from 4,084 farmers in the Project base year to:
1. 4,600 farmers in Year 1
 2. 5,400 farmers Year 2;
 3. 6,200 farmers Year 3; and
 4. 7,000 farmers in Year 4.

VII. Project Activities

Zikometso will ensure the following major activities are completed with the assistance of consultants where necessary.

- A. Improve the management and institutional capability of Zikometso by:
1. training Zikometso management on revolving fund best practices and software;
 2. training Zikometso staff in health and safety practices;
 3. acquiring additional office equipment;
 4. purchasing a vehicle in order to transport raw chili from farmers and distribute processed chili to markets;
 5. visiting Mumbwa Paprika Farmers Association in Zambia to learn from their paprika exporting experiences;
 6. conducting market research to determine consumer preferences;
 7. constructing an office building, and
 8. establishing a more professional leadership core by recruiting and paying association staff including a production manager.
- B. Institute improved financial and operating procedures by training Zikometso accounts personnel to use SAGE accounting software.
- C. Improve Birds Eye chili production systems by:
1. improving product quality through acquisition and use of chili processing equipment;
 2. supplying improved chili seeds to members of the association;
 3. developing a chili sauce, archar and powder production manual;

4. improving product quality and obtaining product certification from the Malawi Bureau of Standards; and
5. constructing a factory to improve processing capability.

VIII. Roles and Responsibilities of the Parties

ADF's Partner in Malawi will provide the standard ADF training in bookkeeping, monitoring and assessment. Zikometso is responsible for ensuring the proper management and implementation of the Grant. The ADF Partner in Malawi will provide Zikometso with technical and management assistance during implementation.

IX. Monitoring and Evaluation

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