

PROJECT DESCRIPTION
LKM Aquaculture Investments Limited Hatchery – 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 Government of Zambia's (GRZ) withdrawal from commercial fingerling production and marketing creates an opportunity for LKM Aquaculture Investments Limited (LKM) to increase its market share. LKM has taken over the GRZ fish pond facilities in Chilanga, and is producing fingerlings for sale; but the output has remained low due to technological and management constraints. By expanding sales, LKM will secure new job opportunities for its community and produce fingerlings for the local market and beyond.

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 7 of the Agreement and do not cause ADF's contribution to exceed the obligated amount specified in Article 3, Section 3.1 of the Agreement.

B. Grantee Contribution

The Grantee will contribute its existing assets relating to the fish hatchery facility which include the fish ponds at Chilanga, employees' salaries (those not paid by the project) estimated at ZMK 18,640,000 (based on LKM's Accounts Statement for Fiscal Year ending 31 March 2004), the expertise of the management and staff and the business as a going concern. The Grantee will also be contributing to the project motor vehicles and boats worth ZMK 137,000,000 and fish accessories worth ZMK 37,000,000.

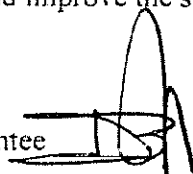
IV. Project Goal

The goal of this Project is to enhance the growth of an African-owned small and medium sized enterprise and improve the standard of living for their employees.

ADF



Grantee



Page 1 of 4

Grant No.1659-ZAM

V. Project Purpose

The purpose of the Project is to increase the incomes of LKM, its owners, and its employees as follows.

Net income before taxes, depreciation and CRG in ZMK changed from a baseline of 58,048,595 to:

Year 1: - 34,904,000
Year 2: 203,232,000
Year 3: 498,217,000
Year 4: 966,209,000
Year 5: 1,671,909,000

Employee profit sharing ZMK increased from a baseline of 0 to:

Year 1: 0
Year 2: 21,339,300
Year 3: 62,976,000
Year 4: 136,510,200
Year 5: 183,459,080

Employee provident fund ZMK increased from a baseline of 0 to:

Year 1: 5,199,000
Year 2: 24,539,000
Year 3: 28,956,000
Year 4: 34,168,000
Year 5: 40,319,000

Scholarship fund ZMK increased from a baseline of 0 to:

Year 1: 15,000,000
Year 2: 18,015,000
Year 3: 21,636,000
Year 4: 25,985,000
Year 5: 31,208,000

Wages in ZMK increased from a baseline of 23,354,065 to:

Year 1: 207,960,000
Year 2: 245,393,000
Year 3: 289,564,000
Year 4: 341,685,000
Year 5: 403,188,000

Increase in positions: 26 new positions created in year one consisting of 24 redeployed and 2 newly hired employees.

Engender corporate responsibility as evidenced by regular and timely contributions to a local development fund.

VI. Outputs

A. Increased fingerling production and sales

1. Fingerling production increases from 1,200,000 fingerlings in the base year and Project Year 1 to:
 - Year 2: 1,500,000
 - Year 3: 1,851,375
 - Year 4: 2,339,531
 - Year 5: 2,925,469
2. Fingerling sales increase from ZMK 358, 000,000 in the base year to:
 - Year 1: 540,000,000 ZMK
 - Year 2: 810,000,000 ZMK
 - Year 3: 1,201,542,000 ZMK
 - Year 4: 1,824,834,000 ZMK
 - Year 5: 2,738,239,000 ZMK

B. Improved marketing and delivery system.

Outsourced sales increase from 0 in the base year to:

- Year 1: 100,000 ZMK
- Year 2: 125,000 ZMK
- Year 3: 156,250 ZMK
- Year 4: 195,313 ZMK
- Year 5: 244,141 ZMK

VII. Activities

LKM will operate a fish hatchery in accordance with the conditions stipulated in the Decision Letter of the Environmental Council of Zambia (ECZ) to LKM dated December 30th, 2004.

A. Fingerling Production

In order to increase the production of tilapia fingerlings, LKM will construct a modern hatchery and install hatchery equipment.

B. Marketing and Sales

LKM will undertake the following activities to improve the marketing delivery system:

- obtain and utilize truck for fingerling delivery;
- obtain and utilize containers for transport of fingerlings;
- LKM will engage outside sales agents;

- LKM will implement their marketing program including advertising on radio, in newspapers, and in magazines, and implement improved signage; and
- LKM will distribute demo samples and identify (57) local fish farming enterprises to be developed to purchase fingerlings from LKM; and
- LKM will train the same (57) local fish farmers in fish management.

C. Improved Management Capacity

LKM will undertake the following to improve the skills of the LKM staff in hatchery management and to strengthen management capacity:

- Hire an expert to train entire LKM workforce in hatchery management;
- train the management staff in ADF procedures, monitoring and evaluation, and reporting;
- hire an experienced operations manager;
- develop and provide to ADF for review a provident scheme trust plan within 90 days of approval of the grant, and implement the scheme by a date mutually agreed upon by LKM and ADF; and
- develop and implement improved financial and administrative policies and procedures by Year 2 of the Project.


VIII. Roles and Responsibilities of the Parties

LKM is responsible for the management and the proper implementation of the Project.

Zambia Agribusiness Technical Assistance Center Ltd. (ZATAC), ADF's partner in Zambia, will train LKM staff in the areas of management, ADF reporting, governance, and business planning. ZATAC will also provide technical assistance to the members and leadership in those areas. At a minimum, ZATAC will be involved and advise on the negotiation of the contract terms for the first two commercial buyers to ensure timely payment terms are included in the contract.

IX. Monitoring and Evaluation

Within sixty days of the effective date of this Agreement, the Grantee, working with the ADF Partner, will form a monitoring and assessment committee composed of a representative cross-section of the Grantee's organization. The committee will provide the Partner input for the Project monitoring plan. In addition, during implementation, the committee will have responsibility for ensuring that the Project follows the implementation plan, and that problems identified through monitoring and evaluation are properly addressed in a timely manner.

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