

PROJECT DESCRIPTION
Mpika Dairy Farmers Cooperative

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 Mpika Dairy Farmers Cooperative Society Limited (MDFCS) is a Zambian dairy farmer owned cooperative located 639 kilometers from Lusaka in Mpika District, Northern Province. It has fifty-four fully paid up small scale farmers, ten of whom are women. The Cooperative benefitted from an Enterprise Development Investment (EDI) grant from ADF which resulted in, among other things, the development of a business plan for Mpika's expansion and improved and operational and management capacity.

There is currently a large unmet demand for raw and pasteurized milk and shortages of pasteurized milk in the Northern Province of Zambia. The Cooperative would like to take advantage of this unmet demand for pasteurized milk, but is currently constrained by its limited production capacity and market access.

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 4, Section 4.1 of the Agreement.

B. Grantee Contribution

MDFCS will contribute its assets, which include a building (milk collection center) and membership dues. The Cooperative will contribute to the ongoing operations of its milk collection center, continue to purchase milk from the farmers and meet the costs of the sales assistants and other business expenses.

C. Other Contributions

MDFCSs members will contribute their dairy animals, land and land improvements such as paddocks, milk parlors, feeding and water troughs on their farms.

IV. Project Goal

The goal of this project is to improve the standard of living of small scale dairy farmers in the Mpika District.

V. Project Purpose

The purpose of the project is to increase the income of MDFCS, salaries of its full-time employees and incomes of its farmer members.

- A. MDFCS's annual net income (before depreciation and taxes) will change from a baseline of Zambian Kwacha (ZMK) -21,032,000 to:
1. ZMK -108,203,000 in Project Year I;
 2. ZMK 216,922,000 in Project Year II;
 3. ZMK 278,027,000 in Project Year III;
 4. ZMK 331,380,000 in Project Year IV; and
 5. ZMK 399,724,000 in Project Year V.
- B. The total value of annual salaries paid to full-time employees of MDFCS will change from a baseline of ZMK 48,573,600 to:
1. ZMK 126,600,000 in Project Year I;
 2. ZMK 167,832,000 in Project Year II;
 3. ZMK 181,256,000 in Project Year III;
 4. ZMK 195,760,000 in Project Year IV; and
 5. ZMK 211,421,000 in Project Year V.
- C. The total gross annual income received by member farmers from the sale of their milk to MDFCS will change from a baseline of ZMK 121,500,000 to:
1. ZMK 324,700,000 in Project Year I;
 2. ZMK 646,936,000 in Project Year II;
 3. ZMK 745,892,000 in Project Year III;
 4. ZMK 838,537,000 in Project Year IV; and
 5. ZMK 953,402,000 in Project Year V.

VI. Outputs

- A. A major output of the Project is the increased capacity of MDFCS to produce and sell milk as evidenced by increased production volumes and increased gross revenues as follows:
1. The annual volume of milk will increase from a baseline of 113,582 liters to:
 - (a) 150,332 liters in Project Year I;
 - (b) 239,388 liters in Project Year II;
 - (c) 257,604 liters in Project Year III;

- (d) 269,388 liters in Project Year IV; and
- (e) 283,624 liters in Project Year V.

2. MDFCS's projected gross revenues will increase from a baseline of ZMK 285,000,000 to:

- (a) ZMK 405,875,000 in Project Year I;
- (b) ZMK 1,097,975,000 in Project Year II;
- (c) ZMK 1,274,625,000 in Project Year III;
- (d) ZMK 1,439,609,000 in Project Year IV; and
- (e) ZMK 1,637,078,000 in Project Year V.

B. MDFCS will strengthen its fiscal and social responsibility as demonstrated by its compliance with the Re-Investment Commitment Schedule set forth in Appendix A-2 to this Agreement.

VII. Activities

MDFCS's main business activity is the marketing and supply of raw milk provided by its cooperative members. The following activities will enable MDFCS to increase production and sales revenue of its milk. They are categorized according to production, marketing, and management activities.

A. Production

The following activities will enable MDFCS to improve its production efficiency, output, and the quality of its products.

1. Operations Improvement

- (a) Increase milk production through the purchase and distribution of 50 dairy animals by the end of the first year of the project.
- (b) Improve quality and price of milk, reduce spoilage through the purchase and operation of a cost effective pasteurization and packaging facility for milk and milk products by the end of project year two.
- (c) Design and implement a restocking revolving loan fund to purchase and distribute animals to additional members from funds generated from repayment of the initial 50 animals, thereby increasing membership and the number of dairy animals.
- (d) Improve milk productivity by increasing the number of lactating cows through the implementation of an AI breeding program by year one of the project.
- (e) Improve milk production volumes and decrease the mortality rate of cows by the implementation of disease control and animal husbandry programs in project year one.
- (f) Increase volume, quality and sales through routine monitoring of production and distribution facilities.

2. Training

- (a) Technical experts will train MDFCS's employees on the operation of the new pasteurization equipment in the milk processing facility.
- (b) MDFCS farmer members will be trained in breeding (e.g. artificial insemination), disease control, and animal husbandry.

B. Marketing

The following marketing activities will enable MDFCS to sell its milk to the Northern Province in the pasteurized milk market:

- 1. with the assistance of a branding expert, design quality packing materials, leaflets other branding materials in year one of the project;
- 2. expand market access by gaining contracts with existing distributors or agents dealing in food related consumer products in project year one;
- 3. promote fresh milk sales to such buyers as education and health institutions by appointment of agents and sales persons in project year one;
- 4. in project year one, implement a delivery and transport system to cover existing distributors, direct customer sales and new markets that includes purchase of a ten ton refrigerated truck; and
- 5. complete a market survey by the end of project year three that analyzes and assesses market demands and price patterns and follow up through continuous monitoring of price changes.

C. Management

MDFCS will improve its management capabilities to meet the need for better marketing of its product and improved production by implementing the following activities.

1. Operations Improvement

- (a) Beginning in project year one, a Cooperative Manager will provide overall management of the Cooperative's activities and advise the Board of Directors on the status of project implementation.
- (b) The Finance and Administration Officer will provide financial management support services under the supervision of the Cooperative Manager and will oversee the implementation of the new internal controls and the financial management system.
- (c) The Production Superintendent will oversee the production of milk products, quality control, and provide support to the Cooperative member farmers.
- (d) A Marketing Manager in year one that will provide strategic leadership in marketing and ensure that the marketing strategy, including product pricing, marketing channel and promotion strategies are implemented.

2. Training

MDFCS's staff will receive training on the use of the new accounting software in project year one.

VIII. Roles and Responsibilities of the Parties

The staff and elected leadership of MDFCS are responsible for the management and the proper implementation of the Project.

ZATAC, ADF's partner in Zambia, will provide training in the areas of management, ADF reporting, corporate/cooperative governance and business planning. ZATAC will also provide technical assistance to the members and assistance in leadership methods.

IX. Monitoring and Evaluation

Within sixty days of the effective date of this Agreement, MDFCS, working with the ADF Partner, will form a monitoring and assessment committee composed of a representative cross-section of MDFCS. 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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