

COOPERATIVE AGREEMENT DESCRIPTION
ZATAC Small and Medium Enterprise Development (SMED) Fund

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 key constraints to the growth of Zambia's small and medium enterprises (SMEs) include the following items.

A. Capital and Financial Services

Small-scale agribusinesses and SMEs generally lack access to financing, especially for procurement of equipment, operating capital, and financial services.

B. Technology

Zambia's small scale enterprises most often cannot afford to acquire technology that would be required to improve their products and thus their competitiveness in the economy. As a result, they suffer from low productivity and their products are of an inferior quality.

C. Low Productivity and Reduced Competitiveness

Smallholders' productivity is low due to limited access to improved seed varieties and limited resources for fertilizers and pesticides, problems which are compounded by their smaller purchasing power making their component inputs more expensive and further reducing their competitiveness.

D. Value-Added at the Producer Level

Smallholders add very little value to their primary commodities via transformation or improved packaging, and they typically fail to attract premium prices for their unfinished products due to failure to grade and differentiate the quality of produce.

E. Market Access

Smallholders and SMEs lack market information to enable them to decide when it is best to put produce into the market, typically have long distances from rural

production areas to the most lucrative urban markets, lack the economies of scale to gain competitive pricing on transport, and typically lose margins as a consequence of selling through middlemen and brokers.

F. Business Acumen and Governance and Access to Business Support Services

Most small processors, agribusinesses, and SMEs lack requisite business skills to be viable enterprises, while many producer cooperatives lack a strong profit orientation and have weak governance. Moreover, there is a lack of business support services to help small businesses and cooperatives improve their financial, technical, and managerial expertise and their understanding of corporate governance, purchasing, marketing, and longer term business planning.

ZATAC and Woord en Daad, a Netherlands non-governmental organization, have entered into cooperation to strengthen and to stimulate the growth of the SME sector in Zambia through the provision of financial services (loans, guarantees, etc.), and business development services (business plan development, administration/management, technical expertise, certification, market linkages, export, etc.). ZATAC and Woord en Daad intend to provide support to SMEs based on mutually approved business plans and information requests.

There is a great need in Zambia for these services in the small business sector, particularly in rural areas. By providing these services it is planned that quality jobs and income among the grassroots people of Zambia will be created.

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. ZATAC Contribution

ZATAC will contribute \$250,000 which will be raised through Woord en Daad.

IV. Investment Goal

The goal of this investment is to promote the development of the small and medium-sized enterprise sector in Zambia.

V. Investment Purpose

The purpose of the investment is to increase income for the poor and marginalized in Zambia, as measured by changes in annual income and number of new living-wage jobs created.

VI. Outputs**A. Increased Access by Grassroots People to Jobs and Income Opportunities**

By the end of the project, the investment will achieve at least one person placed in a permanent living-wage job for each US\$10,000 equivalent invested (disaggregated by gender).

B. Viable and Sustainable Enterprises Supported

1. Number of sustainable enterprises assisted
2. At least 50 percent of businesses are operating at the breakeven or better three years after ZATAC's assistance ends
3. Baseline sales and revenues and the increase in sales for SMEs and agricultural entities
4. Net income of enterprises before income taxes and depreciation and the increase in net income
5. Follow-on financing received from non-ADF sources

C. Enhanced capacity of ZATAC to manage a revolving credit fund, as demonstrated by an overall repayment of at least 90 percent on loans by the end of the project.**VII. Activities****A. Management of ZATAC's Investment Program**

Provision of financial and technical assistance to small and medium enterprises is the major activity of the Project. ZATAC will adopt guidelines and policies for administering the program.

1. Purposes of Loans and Grants

ZATAC will extend loans and grants in accordance with established policies and for authorized purposes. It will not lend money for prohibited purposes as stipulated below.

a. Authorized Purposes

i. Access to Inputs

Participating SMEs will have access to improved seed varieties, fertilizers and pesticides, manufacturing inputs and raw materials through access to credit and other financial services where such inputs form part of an SME strategy to increase value-added production/services, exports, or tourism earnings. SMEs will also be trained in the appropriate use of these inputs, in order to ensure increases in productivity.

ii. Improved Production and Handling Techniques

Where necessary, participating SMEs will also be trained in improved land, labor, and capital management techniques in order to increase and sustain productivity, as well as training in post-harvest storage, handling, and produce grading to reduce losses and attract premium prices for their products.

iii. Strengthened Management

SMEs will be offered training or technical assistance, as appropriate, in administration and financial management, to ensure transparency and good governance, as well as support in business planning, purchasing, pricing, and marketing.

iv. Project and Business Plan Development

SMEs will be assisted in the development of project plans and business plans to support increased competitiveness and best business practices.

v. Improved Market Access

Participating SMEs will receive capacity building to enable them easier access to market price information that will enable them to make more informed decisions about when to put products on the market, as well as assistance gain competitive pricing on to-market transport and in selling directly to urban markets or processors.

vi. Increasing Value-Added

As appropriate, SMEs will be assisted in transforming or packaging their primary products in order to add value and increase their incomes.

vii. HIV/AIDS Prevention

Members of participating SMEs will be supported to integrate appropriate HIV/AIDS prevention and mitigation strategies within their business plans.

viii. Improving Access to Technology

Assist SME processors and manufacturers to identify and access the most appropriate equipment to increase productivity and quality.

b. Prohibited Purposes

The following are prohibited purposes:

- i. the creation or dissemination of political propaganda, or any attempt to influence legislation or any government act or decision;
- ii. the participation in any political campaign on behalf of, or in opposition to, any candidate for public office;
- iii. any application of funds received under a loan that constitutes, or could reasonably be expected to constitute, a conflict of interest;
- iv. any application for a loan for an amount greater than the equivalent of US\$ 250,000;
- vi. any application for a loan to finance commodities that does not, or could reasonably not be expected to, make a positive contribution to development, including the following ---
 - a) unsafe or ineffective products, such as certain pesticides, food products, or pharmaceuticals;
 - b) certain luxury goods such as alcoholic beverages and equipment or products for their production or use, equipment or supplies for gambling facilities, and firearms; and
 - c) surveillance equipment of micro-miniature design for audio surveillance activities;

- vii. any application of funds received under a loan that violates, or could reasonably be expected to violate, the provisions of and enforcement of any Zambian laws; and
- viii. any other purpose that is not an authorized purpose.

2. Project Selection Criteria

The ZATAC Board of Directors will approve the procedures for project funding. In the event the ADF representative formally objects to a decision by ZATAC to fund a project, no ADF funds shall be used to finance such project.

ZATAC will identify and select SME clients. The outreach strategy will include the organization of provincial outreach seminars that will innovatively integrate business plan development training with preparation, submission, and selection of proposals for follow-on business plan development and loan awards. ZATAC and other partners will field teams to conduct the training and select projects. As the level of available on-lending resources increases, calls for proposals through the mass media and institutional networks will also be considered for outreach.

The Project will target both groups and closely held businesses. Applications will be accepted from all parts of Zambia with no discrimination on the grounds of sex, ethnicity, religion, race, or creed. Specific emphasis will be on supporting investments whose socio-economic impact will directly increase incomes and expand living-wage job opportunities for poor grassroots producers and marginalized categories of Zambians, such as women, youth, etc. Investments that help communities add value to and directly benefit from their natural resources will commend a high priority. The eligibility criteria for selection of client SMEs will include, without being limited to the following:

- a. proposals for loans for investments in tourism, agriculture / natural source processing, distribution/marketing services for agricultural/natural resource products, or associated transport/warehousing/logistic services;
- b. applicants' relevant business experience;
- c. profitability;
- d. social/economic impact of the proposed investment including jobs created and income at the grassroots;
- e. socio-economic benefits responding to critical needs of marginalized groups and communities;

- f. potential for long-term sustainability and/or commercial viability;
- g. sustainability of the investment without further external assistance or grant funding;
- h. loan repayment period one to five years; and
- i. loan amount K200 million to K400 million.

The program will be founded on the following technical approach that has yielded good results for ZATAC in the past.

- j. Identifying the Business Concepts – Screen and select four to five top concept papers from ZATAC’s database of eligible applications. In addition, receive and consider applications on an on-going basis until the grant is fully subscribed.
- k. Developing the Business Plans – Work with the selected four to five applicants and guide them to produce bankable high-impact business plans. Also, approve completed business plans through a technical committee.
- l. Support Business Plan Implementation – Provide and support the implementation of the financial and technical resources articulated in the Business Plans.
- m. Manage Credit – Provide fund management and other financial services.
- n. Monitor and Evaluate – Design and implement a monitoring and evaluation plan to track the program at enterprise, subsector, provincial, and national levels.

The following project selection and evaluation criteria will be essential to implementing the self-help, community based development initiatives. Some or all of the following selection criteria need to be addressed and documented in the process of selecting projects.

- o. Ownership
 - i. Community origination
 - ii. Community participation
 - iii. Beneficiaries from marginalized groups
 - iv. 100 percent African ownership (no exceptions)
- p. Benefits
 - i. Salary indicators
 - ii. Worker representation



- iii. Health benefits
 - iv. Training and/or Skills enhancement
 - v. Employment conditions
 - vi. Protection of property rights
 - vii. Gender dimension
 - viii. Education / literacy indicators
 - ix. Increased capacity, such as managerial, governance, and output/ service
- q. Other Factors
- i. Licensing/regulatory requirements for the project activity
 - ii. Is the project capital intensive?
 - iii. Is a public/private partnership required?
 - iv. Other critical resources required for project success
 - v. Information Technology needs and availability
 - vi. Partner organization capacity

3. Distribution of Funds

ZATAC will disburse funds in accordance with established policies and procedures. In addition, ZATAC will ensure that the following funding targets are met.

- a. Promote the development, competitiveness, and profitability of SMEs involved in tourism and value-added production of agricultural and natural resource products and associated logistical services, ensuring that at least four SMEs focused on agricultural production, value-added processing, natural resource products associated logistical services or tourism related will have received funding by the end of year one.
- b. Ensure that every US\$10,000 invested generates at least one permanent job.
- c. Ensure that supported smallholder producers earn at least the equivalent of Zambia's statutory monthly minimum wage.

VIII. Roles and Responsibilities of the Parties

ZATAC has the primary responsibility for ensuring that the project activities are properly implemented. Within ZATAC, the Board of Directors will be the highest decision making body. It will set strategies, policies and direction of the entire business. The

CEO and the management team will provide the support necessary to effectively implement the project.

IX. Monitoring and Evaluation

Within sixty days of the effective date of this Agreement, ZATAC Partner, will form a monitoring and assessment committee. 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.

X. Other Implementation Issues

ZATAC will establish in addition to its current bank accounts an operations account to receive and manage the grant funds. ZATAC will use the operations account to receive regular deposits and expend as per the funded activities under this project.