

**PROJECT DESCRIPTION
MMADINARE COOPERATIVE DAIRY DEVELOPMENT**

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

Mmadinare Multipurpose Cooperative Society (MMCS) owns a 1,679-hectare dairy ranch and small milk processing plant within the town of Selebi-Phikwe. It aims to provide its members a range of benefits and services, including: technical advice to rural cattle owners; supplementary feed at concessionary prices to help them increase their milk production; and, for those members who sell their milk to the cooperative, a portion of the bonus pay-out at the end of the financial year. The Cooperative has a regular customer base, but with a herd of only 35 "Brown Swiss" cows and low milking yields, the Cooperative is not able to meet its customers' requirements solely from the milk produced on the ranch. Consequently, to keep up with demand, the Cooperative relies on purchasing raw milk from other dairies as far as 550 kilometers away.

In order to become more self reliant, ensure a more reliable source of milk, and reduce the input costs of the dairy plant, the Cooperative wants to increase the milk output from the dairy farm. Increased productivity will be achieved by improving the management of the cows and by providing them higher quality, more nutritious feed. MMCS faces constraints, however, in its management and operational capabilities. As a first step to improving the capacity of the farm and dairy plant, it needs to develop a farm management and business plan.

III. Funding

A. USADF Contribution

The financial plan for USADF'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 USADF's contribution to exceed the obligated amount specified in Article 4, Section 4.1 of the Agreement.

B. Client Contribution

The Client will contribute management and clerical services, farm workers, dairy workers, and local market knowledge accumulated over many years.

IV. Goal

The goal of the Project is to promote the growth of small-scale dairy enterprises and increase the incomes of rural dairy farmers and their families in Botswana.

V. Project Purpose

The purpose of the Project is to improve the MMCS's prospects for sustained expansion as indicated by a comprehensive business plan that USADF deems suitable for funding by a donor or other financial institution.

VI. Project Outputs

A. A comprehensive business plan that includes at a minimum the following elements:

- a marketing and distribution strategy that enables MMCS to identify specific buyers and target markets;
- projected financial results that support any proposed investment(s) as evidenced by acceptable returns on investment;
- a market development strategy and plan, including an assessment of market opportunities for product diversification, volume sales, and gross margins for major product lines;
- a distribution plan with detailed and measurable demand projections; and
- projections that show the amount of increase in both the Cooperative's revenues and members' incomes, and establish baseline values for both.

B. Adoption of a financial management system, including:

- implementation of a full set of internal controls, cash management procedures, inventory and other records by Year II, as demonstrated by accurate and fully reconciled quarterly financial reports and quarterly business financial statements;
- installation of a new financial accounting system certified as fully compliant with USADF and investor management reporting requirements;
- documentation of financial management procedures;
- appointment of a trained bookkeeper; and
- demonstrated proficiency in the management of the MMCS financial systems as verified by an audit that is free of material adverse findings by the end of Year II of the Investment.

C. Development of a farm management plan that includes:

- suggested improvements in milk production techniques;
- processes that incorporate the correct use of technology;
- analysis of the feasibility of adding on-site fodder production; and
- incorporation of quality and health assurance indicators.

- D. Creation of a technical assistance and monitoring chart that records:
- periodic visits from animal health and dairy farm specialists;
 - certifications of the maintenance of disease-free cows; and
 - certification of the milk as safe by the regulatory authorities.
- E. Improved milk production techniques, as demonstrated by the following results from a pilot production activity:
- the Cooperative's milk output increases from a baseline of six liters per cow to 12 liters per cow by the end of Year II of the Project; and
 - the quantity of milk acquired from other dairies as a percentage of total milk sold, from a baseline of 41 percent in 2006 to 22.5 percent in Year II of the Project.

VII. Major Activities to be Financed under the Agreement

A. Development of a Business and Farm Management Plan

Consultant will be hired to develop a business plan for MMCS's long-term market expansion and to develop a farm management plan that will recommend improvements in production techniques, use of technology, feasibility of feed production, and maintenance of quality, health and safety standards.

B. Improved Operational Capabilities

The Cooperative will conduct an organizational review that results in recommendations for an improved governance structure and a more efficient model for its dairy operations. MMCS's committee members will be trained at a two-week business leadership conference to improve their business awareness and understanding. Staff will receive on-the-job training at larger commercial dairy farms in the region. A farm manager will be hired to improve dairy efficiency and implement suggested operational changes. A waste management system will be built for the dairy farm milking parlor, including a lined septic tank to prevent ground contamination.

C. Accounting and Financial Systems Development

A bookkeeper will be trained to maintain a full set of accounting records. MMCS will purchase office equipment to enable the accounting department to capture all financial transactions and expedite the reporting of financial information

D. Pilot Capacity Expansion Project

The Cooperative will conduct a pilot activity to assess methods for increasing output of milk. MMCS will purchase 45 days' worth of high-quality feed for 20 cows to test out an intensive feeding regimen to improve milk yields. The Cooperative will also purchase additional milk supplies from its own ranch and local suppliers as a pilot effort to meet increased customer demand.

VIII. Roles and Responsibilities of the Parties

The management committee of the Cooperative is responsible for ensuring that the managers of the dairy and farm perform their duties according to their job descriptions, that the internal controls of the Cooperative are fully operational, that all financial reporting is completed, and that all decisions of the members at the General Meetings are carried out.

USADF, through its Partner in Botswana, will be responsible for providing Mmadinare Multipurpose Cooperative Society with technical support and management assistance during the implementation of the Project. The Partner will provide the necessary standard USADF training in bookkeeping, monitoring and assessment.

IX. Monitoring And Evaluation

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

The Partner will closely monitor the activities of MMCS to ensure proper reporting and adherence to the Project implementation plan by the Client and movement towards the achievement of Project objectives. The Partner will continuously assess the Project risk and take remedial actions as needed. Monitoring by the Partner will be an important aspect of the ongoing coaching and advisory services. The Partner will review MMCS' quarterly reports and will submit comments and observations to the management of MMCS as part of the annual project evaluation. The two organizations will jointly design the evaluation process.