

**PROJECT DESCRIPTION**  
**Mmadinare Dairy Production Project**  
**Botswana**

**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 Limited (MMCSL) is a small to medium-sized enterprise headquartered in Selibe-Phikwe, Botswana that produces and processes milk into fresh pasteurized milk and other milk products. MMCSL has benefited from an Enterprise Development Investment (EDI) grant from ADF that improved the Cooperative's operational and management capabilities and prepared it for expansion.

A business opportunity has been identified in the growing demand for fresh milk and dairy products in Botswana. Currently 80 percent of Botswana's fresh milk is imported from South Africa and there is an opportunity to substitute imported milk with locally produced milk. At present, MMCSL cannot take advantage of this opportunity as it has limited production and processing facilities and no access to expansion capital.

**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. Client Contribution**

MMCSL will provide 30 cows, additional feed for the milking herd, processing equipment to produce fermented products, and technical assistance and training in production technologies for MMCSL members.

**IV. Project Goal**

The goal of this project is to improve the standard of living of small-scale dairy farmers in Selibe-Phikwe, Botswana.

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## V. Project Purpose

The purpose of the project is to increase the income of MMCSL, salaries of its full-time employees and incomes of its farmer members working in dairy production.

- A. MMCSL's annual net income (before depreciation and taxes) will change from a baseline of Botswana Pula (BWP) 138,440 to:
1. BWP -4,556 in Project Year I;
  2. BWP 65,625 in Project Year II;
  3. BWP 168,750 in Project Year III;
  4. BWP 309,375 in Project Year IV; and
  5. BWP 487,500 in Project Year V.
- B. Annual salaries paid to full-time employees of MMCSL will change from a baseline of BWP 357,187 to:
1. BWP 392,906 in Project Year I;
  2. BWP 548,986 in Project Year II;
  3. BWP 593,454 in Project Year III;
  4. BWP 641,525 in Project Year IV; and
  5. BWP 693,485 in Project Year V.
- C. The Project Purpose is to increase the gross annual income of member farmers working in dairy production. This will be accomplished by first paying member farmers for the milk they contribute to the Cooperative. Secondly, the Cooperative will offer a bonus of 25 percent of annual profits. The verifiable indicators are as follows:
1. Member farmer gross income from milk contribution sales to the Cooperative will change from a baseline of BWP 9,450 to:
    - a. BWP 56,247 in Project Year I;
    - b. BWP 124,817 in Project Year II;
    - c. BWP 141,016 in Project Year III;
    - d. BWP 159,303 in Project Year IV; and
    - e. BWP 179,945 in Project Year V.
  2. Annually distributed profits to member farmers will be implemented beginning in Project Year I. The annual amounts will be as follows:
    - a. zero in Project Year I;
    - b. BWP 16,406 in Project Year II;
    - c. BWP 42,188 in Project Year III;
    - d. BWP 77,344 in Project Year IV; and
    - e. BWP 121,875 in Project Year V.

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## VI. Outputs

- A. A major output of the Project is the increased capacity of MMCSL to produce and sell milk and other milk products as evidenced by increased production volumes and increased gross revenues as follows:
1. The annual volume of milk will increase from a baseline of 54,000 liters to:
    - a. 228,960 liters in Project Year I;
    - b. 477,576 liters in Project Year II;
    - c. 501,555 liters in Project Year III;
    - d. 524,640 liters in Project Year IV; and
    - e. 549,648 liters in Project Year V.
  2. MMCSL's projected gross revenues will increase from a baseline of BWP 937,746 to:
    - a. BWP 2,135,097 in Project Year I;
    - b. BWP 4,736,682 in Project Year II;
    - c. BWP 5,356,400 in Project Year III;
    - d. BWP 6,056,612 in Project Year IV; and
    - e. BWP 6,847,759 in Project Year V.
- B. MMCSL will strengthen its social responsibility by donating a portion of its milk and milk products to Selibe Phikwe Home Based Care for the benefit of HIV / AIDS patients. The annual amounts of in-kind contributions will be as follows:
1. BWP 10,320 in Project Year I;
  2. BWP 11,153 in Project Year II;
  3. BWP 12,056 in Project Year III;
  4. BWP 13,033 in Project Year IV; and
  5. BWP 14,087 in Project Year V.

## VII. Activities

The following activities will enable MMCSL to increase production and sales revenue of its milk and milk products. They are categorized according to activities that will increase milk production, increase the Cooperative's capacity to process milk and milk products, expand market opportunities, and increase management capacity.

- A. Milk Production Improvement
1. Increase milk production through the purchase of 100 Holstein dairy animals by the end of the first year of the project
  2. Increase milk yields through the construction and operation of a milking parlor in which to milk cows in project year one
  3. Improve production efficiency by moving from manual milking to machine operated milking through the purchase and use of a milking machine in project year one

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4. Improve production efficiency by constructing and operating a pre-milking shed in project year one
5. Increase milk yields by managing cows under the zero-grading system throughout the duration of the project beginning in project year one
6. Increase milk yields by constructing and operating a zero grazing unit with feeding troughs in project year one

**B. Milk Processing Improvement**

1. Improve processing capacity by upgrading the current processing plant to house the new pasteurizer and homogenizer by the end of project year one
2. Install and operate two batch pasteurizers to increase pasteurization capacity of milk and fermented products in project year one
3. Install and operate a homogenizer to improve product quality in project year one

**C. Market Expansion**

1. The Business Manager will develop a marketing plan to determine market expansion possibilities in project year one.
2. The Cooperative will create and implement a promotional campaign for market penetration in additional local markets by the end of project year two.
3. The management committee will seek accreditation from the Botswana Bureau of Standards by the end of project year one to distinguish its products from those of competitors.

**D. Management Improvement**

1. The management team will receive training in business management and financial management twice per year beginning in project year one.
2. Member farmers working in dairy production will receive training in dairy management and business management beginning in project year one.

**VIII. Roles and Responsibilities of the Parties**

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

ADF's Partner in Botswana will provide training in the areas of management, ADF reporting, cooperative governance and business planning and will ensure the achievement of project targets. The Partner will also provide technical assistance to the members and assistance in leadership methods.

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**IX. Monitoring and Evaluation**

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

The Client will implement the recommendations of the draft Environmental Impact Assessment completed on its operations by Ntingana Consultants (Pty) Ltd. as received by ADF on August 8, 2008.

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*[Signature]*  
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