

PROJECT DESCRIPTION**DMDC Rice Expansion Project****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 Diocese of Mongu Development Center (DMDC) is a small enterprise headquartered in Mongu District in the Western Province of Zambia. DMDC main business activity is the marketing of rice it purchases from small scale farmers in the province. DMDC is currently constrained by low processing and packaging capacity, an inefficient transportation system and insufficient capital to increase the current crop purchase fund. If DMDC is able to overcome these constraints, it can take advantage of the large demand for its rice both in the local market and in the large urban centers of Zambia.

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 8 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

DMDC will contribute its existing assets to the Project, which include administrative office buildings, a warehouse, a rice mill, a maize mill, a storeroom, hook scales and two tractors. DMDC will also cover salaries for its management team and staff during the Project as well as costs for hiring part-time and casual labor. The estimated amount of DMDC contribution is ZMK 2,349,657,978.

IV. Project Goal

The goal of the project is to improve the standard of living of poor small scale rice farmers in the Western Province of Zambia.

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V. Project Purpose

The purpose of the Project is to increase the income of DMDC, its full-time employees, and the incomes of farmers selling to DMDC. The verifiable indicators to monitor achievement of this purpose are as follows.

- A. DMDC's net annual income (before taxes and depreciation) will change from a baseline of Zambian Kwacha (ZMK) 130,633,778 to:
1. ZMK 43,769,792 in Project Year 1;
 2. ZMK 224,912,172 in Project Year 2;
 3. ZMK 304,007,016 in Project Year 3;
 4. ZMK 397,357,110 in Project Year 4; and
 5. ZMK 515,854,170 in Project Year 5.
- B. The total salaries paid to full time staff of DMDC will increase from a baseline of ZMK 222,277,197 to:
1. ZMK 240,209,051 in Project Year 1;
 2. ZMK 295,473,383 in Project Year 2;
 3. ZMK 333,884,923 in Project Year 3;
 4. ZMK 377,289,963 in Project Year 4; and
 5. ZMK 426,337,658 in Project Year 5.
- C. The total income paid to farmers from the sale of rice will increase from a baseline of ZMK 304,100,000 to:
1. ZMK 313,044,000 in Project Year 1;
 2. ZMK 530,609,000 in Project Year 2;
 3. ZMK 659,547,000 in Project Year 3;
 4. ZMK 819,818,000 in Project Year 4; and
 5. ZMK 1,019,033,000 in Project Year 5.

VI. Outputs

The outputs of this project will reinforce and ensure that the project purpose is met. A major output of this project is the increased capacity of DMDC to produce and sell rice as evidenced by increased production volumes and increased gross revenues as follows.

- A. DMDC annual polished rice production volumes will change from a baseline of 136 metric tons to:
1. 140 tons in Project Year 1;
 2. 211 tons in Project Year 2;
 3. 232 tons in Project Year 3;
 4. 255 tons in Project Year 4; and
 5. 281 tons in Project Year 5.

- B. DMDC's projected annual gross revenue will change from a baseline of ZMK 774,120,000 to:
1. ZMK 865,173,764 in Project Year 1;
 2. ZMK 1,362,618,297 in Project Year 2;
 3. ZMK 1,653,841,327 in Project Year 3;
 4. ZMK 2,010,645,435 in Project Year 4; and
 5. ZMK 2,448,292,628 in Project Year 5.
- C. DMDC will strengthen its social responsibility as demonstrated by its compliance with the Re-investment Commitment Schedule set forth in Appendix A-2 to this Agreement.

VII. Activities

DMDC's main business activity is the processing and marketing of polished rice. The following activities will enable DMDC increase production and gross revenue of its rice.

A. Production Improvement Activities

1. DMDC will increase its crop purchase fund to purchase up to 250 tons of paddy rice in Project Year 1 and 350 tons of paddy rice in Project Year 2. The crop purchase fund will cover costs to purchase rice from local farmers, casual labor costs for transport of rice and processing and packaging costs. Purchase of paddy rice will begin in month two of Project Year 1 and continue for the duration of the Project.
2. DMDC currently purchases from four organized and registered groups of rice farmers, as well as individual farmers. During the course of the Project, DMDC will help organize and register rice farmer groups in the areas where it purchases paddy rice to expand its supply network. This activity will be ongoing with the aim of registering an additional five rice farmer groups per Project Year.
3. DMDC will purchase a four wheel drive tractor to facilitate transport of the paddy rice from the depots in the field to one central location. DMDC will purchase three hook scales, one platform scale, five probes and three moisture meters for accurate recordings of rice quantity and quality. DMDC will complete purchase of these items by month three of Project Year 1.
4. DMDC will increase its processing capacity by purchasing an additional rice mill with 1.5 metric ton per hour capacity. The rice mill will include an appropriate dryer and sieve and DMDC will purchase a back-up generator to mitigate against power cuts. DMDC will complete purchase and operation of the rice mill by month six of Project Year 1.

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5. DMDC will increase its storage capacity by constructing a new warehouse with a 500 metric ton capacity. The warehouse will be constructed with four horse reels, eight fire extinguishers and pallets to hold the paddy rice bags. Construction of the warehouse will be complete by month nine of Project Year 1.

B. Marketing Improvement Activities

1. DMDC will improve its capacity to bring finished polished rice to market by purchasing a ten ton truck, which it will use to deliver its rice from the main warehouse to its buyer. DMDC will complete purchase of the ten ton truck by month six of Project Year 1.
2. DMDC will improve its packaging and avoid spillage of rice after packaging by purchasing one additional stitching and one sealing machine complete by month six of Project Year 1.
3. DMDC will improve the marketing of its product by registering "DMDC Mongu Rice" as a brand name. Registration will be complete by month nine of Project Year 1. DMDC will also hire a graphic designer to review the presentation of its product with a focus on improving packaging design and designing labels. The consultant will be hired in month nine of Project Year 1.
4. With the assistance of the DMDC Board Advisor, DMDC will network and explore alternative markets in Lusaka and other towns in Zambia for DMDC Mongu Rice.

C. Management Improvement Activities

1. DMDC will purchase an additional computer to be inventory management and will be linked to the computer in the accounting department. DMDC will complete purchase of the computer by month twelve of Project Year 1.
2. DMDC will improve its current financial management system by using pre-numbered payment vouchers and requisition notes, printing and having the director verify all bank reconciliations, maintaining timesheets and tracking attendance of all staff, having the director approve all payment vouchers, maintaining a petty cash system, and having the accountant receive check and cash payments and verify payments. Improvements in the financial management system will be complete by month six of Project Year 1.

VIII. Roles and Responsibilities of the Parties

The Management team and Board of DMDC are responsible for the management and the proper implementation of the Project. ZATAC, ADF's partner in Zambia, will provide

training in the area of standard ADF bookkeeping, monitoring and assessment. ZATAC will also provide technical assistance and management during implementation.

IX. Monitoring and Evaluation

ADF's partner in Zambia will closely monitor the activities of the cooperative to ensure proper reporting, adherence to the project implementation plan by the association and movement towards the achievement of project objectives. The partner will continuously assess risks and take remedial action as needed. Monitoring by the partner will be an important aspect of the on-going coaching and advisory service. The partner will review ADF's quarterly reports and will submit comments and observations to the management of the association as part of the on-going performance assessment.

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