



Cooperative Agreement 690-A-00-05-00077-00

**Quarterly Report
April to June 2006**

Cooperative League of USA (CLUSA) International Development Enterprises (IDE) Emerging Markets Group (EMG)



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ADMINISTRATIVE DATA

Country	Zambia
Project Title	Production, Finance and Technology
Cooperative Agreement No	690-A-00-03-00172-00
Implementing Agency	NCBA/CLUSA
USAID Technical Office	SO5/Dann Griffiths
Date of Last Evaluation/Audit	N/A
Date of Next Evaluation/Audit	N/A

FINANCIAL DATA

Date of Authorization	April 1st 2005
MAARD Number	6110005.01-3-04073
Total Estimated Amount	\$15,549,830
Total Federal Funds Authorization	\$4,050,000
Appropriation	72 – 19X1030
BPC	GGAX-05-21611-1G13
Outlays this Quarter	\$610,650.00
Total Outlays to date	\$2,322,949.46
Unobligated balance of Federal Funds	\$11,499,830

PROFIT INDICATORS 2 ND QTR 2006		BASELINE	FY 06		
			TARGET	ACTUAL	
Trade/Exports related indicators					
1	Volume and value of purchases from smallholders of targeted commodities (domestic agricultural trade)	\$46,870,313	\$49,213,829	\$53,126,688	
Production/Sales/Value Addition related indicators					
2	Value of Food and non Food Agricultural production by USAID supported groups.	\$5,397,833	\$5,667,725	\$5,334,482	
3	Value of sales of goods and services	\$5,397,833	\$5,667,725	\$5,152,140	
4	Value of resources derived from sustainable natural resources or conservation initiatives.	\$714,978	\$786,476	\$784,715	
5	Value of production per unit disaggregated by commodity sector.	Cotton	\$163	\$175	\$164
		Honey	\$4.44	\$4.66	\$5.2
		Red meat	\$116	\$122	\$197
		Horticulture	\$785	\$824	\$2,711
6	Value of production per client	Cotton	\$192	\$202	\$192
		Honey	\$35	\$37	\$65
		Red meat	\$94	\$99	\$94
		Horticulture	\$628	\$659	\$628
7	Gross Margin per unit	Cotton	\$10	\$10.50	\$12
		Honey	\$2.44	\$2.56	\$3.20
		Red meat	\$7.11	\$7.82	\$88.00
		Horticulture	\$547	\$574	\$547
8	Volume of produce processed (t)	Cotton	19,200	20,160	19,200
		Honey	347	364	450
		Red meat	0	128	150
		Horticulture	0	500	0
Technologies related indicators					
9	Number of clients engaged in improved and/or value added processing and production disaggregated by technology type.	Conservation farming	3,200	10,000	3200
		Vet contract/herd management	0	500	40
		Contract production	37,500	50,000	37615
		Improved honey production	0	100	20
		Input products and services	10,000	40,000	11927
10	Area under improved technologies.	Conservation farming (ha)	3,200	10,000	3200
		Vet contract/herd management (head)	0	5,000	379
		Contract production (ha)	32,000	45,000	32093
		Improved honey production (hives)	0	200	20
		Input products and services (ha)	10,000	40,000	10656

11	IMPROVED TECHNOLOGY ADOPTION RATE.	Conservation Farming	10%	12%	10%
		Vet contract/herd management	0%	25%	0%
		Contract production	25%	21%	40%
		Improved honey production	0%	5%	16%
		Input products and services	10%	12%	29%
12	Number of hectares under biodiversity conservation.		3,200	10,000	3,200
13	Number of hectares under managed natural resource production systems		0	0	0
Finance related Indicators					
14	Value of finance/capital accessed by USAID assisted groups (borrowers)?		\$1,845,045	\$2,500,000	\$1,845,045
15	Number of loans by USAID assisted institutions disaggregated by gender		32,000	45,000	32000
16	Percentage of the number of loans on schedule for repayment		90%	90%	90%
17	Value of loans by USAID assisted institutions disaggregated by gender (lenders)?		\$1,845,045	\$2,500,000	\$1,845,045
18	Percentage of the value of the lending portfolio on schedule for repayment		90%	90%	90%
BDS related indicators					
19	Number of clients/entrepreneurs receiving BDS disaggregated by category e.g. smallholder farmers, agribusiness firms	Smallholder	37,500	40,000	40604
		Agribusiness	2	50	44
20	Number of farmers reached with extension/outreach services		37,500	40,000	40,489
21	Number of people reached with HIV/AIDS A & B outreach programs		0	150,000	150,000
Policy related indicators					
22	Number of policy areas worked on or affected if any		0	0	0
23	Policy progress milestones – Analysis, debate, submission, approval and implementation		0	0	0
Training related indicators (disaggregated by gender)					
24	Number of people trained in	Agricultural production	32,000	40,000	35,504
		Private sector growth	40,000	50,000	41,048
		Nat. Resource Mgmt and Conservation	5,500	5,500	5,500

QUARTERLY SUMMARY

Overview

During the second quarter of 2006, the activities in livestock, agricultural inputs, cotton, horticulture, and honey have begun to ramp up with additional contracts, new services, new sales mechanisms, and improved performance in outgrower schemes. While progress was made, the difficult enabling environment continued to limit the potential impacts, especially in export products like cotton, honey, and some horticulture. In addition, PROFIT's management began a restructuring process that should result in more effective use of resources. Of particular note, and which is reflected in the quarterly report, is a realignment of staff around the two basic facilitation approaches PROFIT is using to foster increased competitiveness in selected value chains. The two approaches are Market Development and Market Leader.

Market Development is an approach designed to facilitate a strengthening of a market for services and products and often includes working with a broader range of firms and market actors. PROFIT is using this approach in its beef and agricultural inputs activities.

The Market Leader approach facilitates industry growth via a lead firm that drives industry level growth and provides a pathway of success that other entrants can follow. PROFIT is using this approach in the cotton, honey, and high-value horticulture industries.

Achievements

- The first private sector veterinary service transactions to smallholder communities were finalized and the first payments and services provided in the south and west
- New sales mechanisms including new outlets in rural areas have been established Two Memorandums of Understanding were signed with multi-outlet agricultural input retailers to assist them in developing marketing strategies and staff capacity to target smallholder communities
- PROFIT's market leader relationship in Honey, Forest Fruits, showed solid increases in smallholder yields even in the face of the poor position Zambian exports have been put in as a result of the Kwacha appreciation
- Staff development continued to progress with regional trainings and institutionalization of the retail and vet activity teams.
- The Innovations Grant process moved through to the competitive stage through which the applicants that made it through the initial stage will undergo a more intensive understanding of their concepts notes to determine final awardees
- The PROFIT intervention strategy and facilitation approaches were recognized in an international conference sponsored by USAID's Microenterprise Development Office (USAID/MD), and will be used as an example of good practice in USAID/MD's training materials on industry based intervention strategies

Challenges

- The strong Kwacha continues to present substantial problems for industries that export and may result in lead firms scaling back their investment in smallholders, as well as closing operations in Zambia
- Many of the implementation challenges indicated in the previous report -- donor and government distortionary activities, expectation management, trust issues between market players, and inexperience in dealing with a smallholder market – are made worse due to the uncertainty of the enabling environment.
- The management transition process has created some uncertainty among the staff and is a distraction at a time that requires substantial focus.

PROGRAM MANAGEMENT AND ADMINISTRATION

Overview

PROFIT continued to improve its administrative and management processes, including formalizing its monitoring and evaluation system, moving forward on the baseline for the Impact Assessment Team from EGAT, and getting the Eastern Province Office fully operational. The unexpected changes in the management structure provided additional challenges in maintaining focus and momentum, and slowed the overall progress of the program. Of particular note during the quarter, PROFIT has moved to formalize and operationalize a comprehensive monitoring and evaluation system.

Achievements

- PROFIT engaged a consultant to assist in developing a comprehensive monitoring and evaluation process, inclusive of its established knowledge management techniques (i.e., activity teams and staff exchanges).
- RURALNET, the local organization engaged to perform a formal baseline for the Impact Assessment Team from EGAT/Washington, finalized the questionnaires and sampling frames and is expected to finish the interview process by the third quarter of 2006.
- PROFIT continued to establish a robust internal learning program providing additional training on retail expansion strategy, institutionalizing knowledge management techniques, and developing vet training for next quarter

Challenges

- The management restructuring extended the feeling of uncertainty among the staff, and that has been a substantial distraction.

Activities Planned for Next Quarter

- Finalizing and implementing the monitoring and evaluation system
- Finalizing the management restructuring process
- Conducting the formal baseline data gathering activities
- Deliver vet training to staff

MARKET DEVELOPMENT ACTIVITIES

LIVESTOCK

Overview

The vet services activities have continued to move forward with some expected ups and downs. On the upside, services are underway and being paid for, and around the country communities continue to push hard for access to private vet services. The downside is that, at the time of payment, not all of the farmers that signed the contract were able to pay. PROFIT had expected some attrition at the time of payment, and PROFIT is working on the timing and conditions of payments to make it easier. At the same time as services are being delivered new farmers are keen to participate, including four in Mazabuka and two in Mongu that joined the contract after seeing the benefits. The overall trend of the service market remains solid as PROFIT has now proven the viability of a smallholder community paying for private vet services.

PROFIT has also continued to push access of additional services targeting smallholder cattle owners. In particular, PROFIT has moved forward on linking feed lot and auction services to smallholders. There remains a substantial lack of knowledge of the benefits of these services among smallholders so awareness is a critical first step. PROFIT is also exploring direct links between commercial growers and smallholders via a modified outgrower scheme.

Achievements

Promotion of private veterinary services: Services being delivered -- This quarter saw two major milestones achieved during the quarter. The first milestone was the payment and delivery of private vet services in Mazabuka and Mongu resulting in six contracts in Mongu

Fremag Veterinary Services Changing Vet Services in Mongu

Although the vet services market in Zambia was severely limited and almost solely the domain of larger commercial farmers, PROFIT identified a substantial market opportunity for services targeting rural smallholder communities. The vets were initially skeptical as smallholders were perceived as unable and unwilling to pay for services.

While progress has been slow and steady, early results are starting to catalyze market momentum. A particularly interesting example is from a private vet in Mongu. Of all the high potential cattle areas, the West was identified as the area where failure was almost certain. Fremag, a local private vet in Mongu, was hopeful, but seemed to convey a lack of confidence of future success.

Since beginning work with PROFIT Fremag has substantially changed its profitability and its outlook. In the last month, Fremag's income from services to smallholders jumped to K6,000,000 from almost zero in the months before working with PROFIT. In addition to service income, sales from their retail outlet moved from K20,000 per week to K450,000 per week. The number of clients visiting Fremag has increased from 2 clients a week to about 15-20 a week. Fremag has now realized the potential from shifting from a reactive to a proactive marketing strategy, including:

- improving their professional image with uniforms and proper coats for when they provide services to a community.
- Investing in proper and more efficient equipment i.e. automatic drenchers and automatic syringes
- establishing a multi-layered promotional strategy that includes a professional sales representative, 10-15% discounts for participating farmers, preferred customer status for participating farmers that buy into the higher service levels, and a range of promotional events to promote HHP based services.

and one contract in Mazabuka. While fewer farmers actually paid than signed the contract (e.g., Mongu had about 900 animals signed up, but payment was made for only 156 of them), our underlying premise has proven accurate – i.e., that smallholders can afford and will pay for private vet services. In Mongu 19 farmers paid ZMK2,300,000 for 156 animals and in Mazabuka 21 farmers paid ZMK1,824,809 for 223 animals. The scaling up of the service delivery will be highly dependent on how the service delivery functions over the next year. As a result, the lower number of farmers is actually a plus, in that PROFIT can better mediate misunderstandings and facilitate effective communications processes that will allow the contractual service delivery mechanism to scale up more quickly.

PROFIT has also facilitated the negotiations for private vet services in Mkushi, Mumbwa, Kalomo, Chongwe, and Monze. The negotiations are at an advanced stage in Monze and Kalomo within the next quarter. Contracts are also expected later in the next quarter for Mkushi and Mumbwa.

Private Vet Network Initiated -- The second major milestone is the organization of a private vet network meeting. The meeting was well attended with six private vet businesses attending. PROFIT worked with the private vets to outline how the private vet industry would like to deal with a few major industry-level constraints. The first is the recognition of a new standard for community livestock workers. The vets agreed that they needed to define a standard for this position, including the development of a training program and establishing individual vets as having responsibility for training and certifying the community livestock workers under their employment. PROFIT worked with the vets to detail a training program that is now being reviewed by the vet network and will form the foundation of the standard. On a related issue, the vets discussed how to foster greater participation of younger vets in the private vet industry. As a result of the discussion, PROFIT agreed to a look at developing a database on young vets, discuss a university based internship program with private vets, and facilitating vet and vet assistant temporary hire service.

Another industry level issue discussed was the lack of functional dip-tanks in rural areas. The vets agreed that this issue should be handled between individual vets, the local community, and PROFIT. PROFIT will work with individual vets on how best to facilitate the refurbishing and/or building of local dip tanks. PROFIT is keen to facilitate an increase in dip tanks in rural communities, but plans to ensure any resources from PROFIT are structured in such a way as to maintain effective private sector incentives and secure and clear ownership of the dip tank.

The last issue discussed at the private vet network meeting was potential investments in a private laboratory facility. The network decided that PROFIT should limit support to one facility and will enter into discussion with the two parties that have submitted proposals to develop a vet lab.

PROFIT Veterinary Service Development Highlights

VET	DISTRICT	CHARACTERISTICS	PROGRESS TO DATE
Dr. Nyimba	Monze	Public/Private Vet Vet Drug Sales Employs Vet Assistant	Herd health plan finalized Presentation to community is being scheduled

VET	DISTRICT	CHARACTERISTICS	PROGRESS TO DATE
Dr. Munkombwe	Monze	Private Vet Vet Drug Sales (affiliated with Twiga Chemicals Ltd) Employs Vet Assistant	Negotiations underway
Dr Parsons	Mazabuka	Public/Private Vet Employs Vet Assistant	Contract signed Payments made First services delivered to 21 farmers and 223 cattle Monitoring underway – farmers have requested additional services be included in contract. New farmers have requested to join the contract
FREMAG Private Veterinary Clinic	Mongu	Private Vet with a Vet Assistant and Engages Community Livestock Workers	Bookkeepers trained Contracts signed Payment made First services delivered to 19 farmers and 156 cattle Monitoring underway – New farmers have requested to join the contract
Agri-Vet	Kalomo	Private Vet in association with feedlot	Negotiations underway
Dr Njobvu	Chongwe	Public/Private Vet	Negotiations underway
Agri-Vet	Mumbwa	Private Vet in association with feedlot	Negotiations underway
Dr Makungu	Mkushi	Public/Private Vet	Negotiations underway
Dr Cantley	Mkushi	Private Vet	Negotiations underway

Improving market transparency and linkages: PROFIT initiated awareness building and negotiations between a private auctioneer service and a community in Mumbwa. The negotiations are underway with substantial interest from the community and auctioneer. Pricing and quality of animals remain points that need further discussions, but PROFIT believes access to such a service provider can be an important mechanism to deal with the lack of transparency in the beef market.

PROFIT continues to work on facilitating feedlot services to smallholders. PROFIT initially was working with one feedlot in Kalomo to pilot a feedlot service, but that feedlot is experiencing cash flow difficulties and has had to focus on its core business before investing in a smallholder service. While PROFIT is waiting to see if this feedlot can get beyond its current difficulties, it has also identified another potential firm that has provided some feedlot services to smallholders. At the same time, PROFIT has entered into discussions with a commercial cattle ranch that is interested in engaging smallholder on a more formal basis. PROFIT has agreed to review their business and see how smallholders can be integrated via a feedlot service or even an outgrower scheme.

Finance: PROFIT continues to push the idea of cattle owners using a savings product to better deal with market risks. While smallholders have had difficulty in fully grasping the benefits, the process has also slowed due to the difficulties the local feedlot and abattoir are

having. The savings product is an important piece of the process of getting smallholders to shift their cattle from a savings to a wealth creating mechanism. As a result, even though it is likely to take some time to get the product and marketing right, PROFIT is keen to find a range of financial products that can help farmers better deal with market risks and better utilize resources for wealth creation and maintenance.

Challenges

- The lack of competent and business minded private vets remains a limitation on scaling up services
- Although farmers are willing to pay, their erratic, limited and lumpy cash flows make the payment structure hard to finalize, which has slowed service delivery and limited the numbers of farmers receiving services
- The lack of support services available to smallholders remains a serious limitation to their commercialization, and building these service markets from their very weak state is a slow process, including feedlot and auctions.

Activities Planned for Next Quarter

- Closely monitor service delivery and payment of contract underway and apply learning to new contract being negotiated.
- Finalize contract with pilot livestock auction service provider and a community in Mumbwa.
- Finalize negotiations and facilitate contract signing, payments, and service delivery in Kalomo, Monze, Mumbwa and Mkushi.
- Continue to work with the target communities to fully understand their responsibilities and to continue to develop suitable group payment mechanisms.
- Continue to investigate ways of facilitating the emergence of private sector veterinary services in areas that are currently inadequately covered.
- Continue to work with Finance Bank to roll out a savings product for smallholder cattle owners.
- PROFIT will continue to explore a range of feedlot service mechanisms and try to facilitate the development of a vibrant market for such services.

AGRICULTURAL INPUTS

Overview

The agricultural inputs industry has not targeted smallholders as a viable market even though smallholders make up the majority of agricultural production in many crops. Retailers, primarily due to the perceived lack of cash and commercial orientation, have not seen the enormous potential in the smallholder market. They have also fallen into a reactive marketing strategy waiting for customers to enter their store as opposed to actively attracting customers and innovately testing new transaction mechanisms.

At the same time, PROFIT has realized that the agricultural inputs industry and the range of support markets that it entails are a substantial gap that is limiting smallholder innovation and providing a serious threat to the competitiveness of cotton, high-value horticulture and a wide range of other industries. To address this competitiveness threat and to foster improved smallholder production, PROFIT has been engaged in building the links between input retailers and rural communities and strengthening the markets for a range of input services.

Achievements

The expansion of retail distribution networks: PROFIT has continued to systematically facilitate the expansion of retail distribution networks of agricultural input dealers into more remote agricultural communities. The program is providing assistance to retailers in learning how to proactively market and establish commercially viable transaction mechanisms with rural communities.

PROFIT is developing with a range of input retailers (i.e., national and single store owners), a strategic marketing process through which retailers can effectively target market high potential communities and establish volume purchasing mechanisms. The initial step is a modification of a traditional field day into a market research and promotional tool. It is through this in-community event that PROFIT also ensures the interest of the retailers by making them responsible for the costs of the event, although PROFIT does assist in organizing and canvassing the community to limit very low potential communities. Based on the information garnered from the in-community promotional event PROFIT works with retailers on how best to establish a more formal and volume base transaction mechanism. PROFIT assists retailers in understanding the risk reward characteristics of different transaction mechanisms and works with them in establishing an appropriate mechanism. From the success with individual retailers, PROFIT has proven to three retail chains the potential of the

smallholder market when targeted with appropriate market research and transaction tools.

Consequently, PROFIT has entered into two memorandums of understanding (an example is

TILLAGE SERVICES IN CHOMA COMMERCIALIZING SMALLHOLDERS

Traditionally, smallholders used either draft or hand hoes to prepare their land. However, two underlying constraints have eroded the benefits and viability of these forms of land preparation. The most stark of these constraints is the massive loss of animal power used to till the land. In some estimates of 70% of the national herd was lost over the last ten years; of that the lion's share came from smallholders. The traditional hand hoe has a range of limitations that include labor requirements and traditional farming practices that limit the time for effective land preparation. At the same time smallholder land preparation has become more and more limited, commercial farmers have moved into specialization to increase yields and increase the overall efficiency of crop production. Over the years, while commercial farming practices have moved slowly into the rural areas, there has been little movement in the emergence of specialized services for traditional smallholders

It is in this context that PROFIT saw opportunity for private tractor owners and service firms already delivering tillage services to commercial farmers. In Siachitema village in Choma, PROFIT has been working with Jones LTD, a private tillage services firm to test market land prep services to smallholders. Based on the principles of conservation farming Jones can provide tillage services during the dry season, substantially increasing the time during which farmers can purchase their services and matching farmer cash flows.

Jones conducted an in-community promotional event attended by about 60 farmers to present the service packages and negotiate pricing options. The farmers and the tillage service provider sealed a deal of ZMK120,000 per hour. Resulting from this promotional event, 13 farmers with 50 ha have mobilized themselves to buy tillage services from Jones. Word of mouth from this initial deal has begun to spread facilitating interest from other service providers and increases in demand from farmers. For example, in Siasikabloe village farmers with about 80 ha of land have begun negotiating with Mr. Jameson Nchimba, a tractor owner that is interested in providing tillage services.

With this initial deal, Jones has realized that there is a substantial opportunity to bundle other inputs and services. As a result, they are now seeking other input dealers to form partnerships in designing pre-packaged bundles of inputs and services. Tillage services are expected to start in August,.

provided as Annex A) with multi-outlet input retailers to assist in developing internal trainings for the stores agents and managers.

PROFIT is working with 28 input retailers and has facilitated 12 in-community promotional events with a total of 1205 farmers attending. Through these initial promotional events, ZMK16,116,444.50 (US\$4,604.70) of input sales were conducted. In many cases, the in-community promotional event stirred additional demand leading to increased in-store sales. These promotional events led to a number of bulk buying mechanisms, in-community agents, and stores being established.

PROFIT Network Expansion Highlights

INPUT SUPPLIER	DISTRICT	CHARACTERISTICS	PROGRESS TO DATE
Dawako	Solwezi	Major outlet for agricultural inputs and veterinary products	Successfully conducted 4 promotional events in Kabisapi/Luamala Communities with a total of 229 farmers attending. Sales worth ZMK296,500 including vegetable seeds, agro and vet chemicals, and empty grain bags. Community bulk buying mechanized established and DAWAKO is offering a 5% discount to the community. A community agent was identified in Kabisapi/Luamala. Promotional raffle is being organized for August 2006 as a promotional tool to reward the consistent customers.
Hygrotech	Ndola	Local branch of nationwide input supplier focused on vegetable/high value crop production	Commercial community bulk buying mechanism was established with Twikatane & Musakashi farmer cooperatives of Ndola and Chambishi respectively. Musakashi purchased vegetable seeds and agro-chemicals in bulk worth ZMK3.5 Million at a discount of 10 to 15%
Misper Agro Enterprises	Mufulira	Independent input supplier Commercial focus but increasingly aligning to smallholder market	A wholly owned retail outlet opened in May, 2006 in the Murundu farming block 15 Km from Mufulira district with a total of 100 farmers in attendance. ZMK300,000 – ZMK800,000 average daily sales.
Landserve	Mkushi	Independent input supplier Commercial focus but increasingly aligning to smallholder market	In June 2006 a community agent shop opened in Masansa called Horizon Deep with an initial stock worth ZMK5.4 Million. Current stock is worth ZMK6.9 million. A 10 to 15% commission on sales has been agreed between Landserve and Horizon Deep community agent. Sales worth ZMK2,150,000 were recorded in first week. PROFIT also assisted Landserve to expand its network to Mpika
Croppack	Mumbwa	Small national input supplier	Signed MOU to provide assistance in strategic marketing targeting smallholders and in-house training of agents/store managers

INPUT SUPPLIER	DISTRICT	CHARACTERISTICS	PROGRESS TO DATE
Cropserve	National	Seed and chemical supplier with large regional footprint and smallholder focus	Signed MOU to provide assistance in strategic marketing targeting smallholders and in-house training of agents/store managers
Cropserve	Choma	Local agency of Cropserve with focus on smallholder market	According to the shop manager over 700 farmers accessed the new shop, of which 300 farmers made orders through the shop resulting in ZMK2.5 million in initial sales. Total sales for the last quarter were ZMK6 million. At Chilumbwe 120 farmers attended a promotional event resulting in ZMK285,000 of sales. Cropserve and Pannar have partnered to make follow up visits to communities to nurture the established commercial relationships.
Cropserve	Mazabuka	Local agency of Cropserve with focus on smallholder market	Market research done in Ngwezi and Magoye with promotion events set for July. Promotional events were conducted with 54 women and 47 men attending, resulting in sales of ZMK205,000. The event also resulted in an agreement to establish an agent in the area and possibly a shop. Cropserve also opened a new shop in June 2006 in Mazabuka to act as a strategic hub and tap into the surrounding small scale market.
Hygrotech	National	Nationwide input supplier focused on vegetable/high value crop production	An MOU is being finalized to assist Hygrotech to develop a strategic marketing plan to target smallholders and provide internal training capacity on transaction mechanisms, and marketing and promotional tools that focus on smallholder characteristics.

INPUT SUPPLIER	DISTRICT	CHARACTERISTICS	PROGRESS TO DATE
Hygrotech	Livingstone	Local branch of nationwide input supplier focused on vegetable/high value crop production	<p>Promotional events were conducted in Makuyu and Kazungula with 40 and 43 farmers in attendance respectively. Sales of ZMK1,996,000 resulted from the events and lead to an agreement between Hygrotech and Gaula Shop in Livingstone to stock Hygrotech products. Total Sales of ZMK 9,275,944 for the quarter between the two communities.</p> <ul style="list-style-type: none"> • Kazungula - ZMK1,911,825 April • Kazungula - ZMK1,516,462 June • Gawula - ZMK3,560,982 April • Gawula - ZMK2,286,675 June <p>The initial volume of sale has resulting in more formal commercial relationships established between Hygrotech and the communities, including Hygrotech providing training to lead farmers in crop management, chemical use and handling. Manual on tomato production were also sold during the training. 12 lead farmers were trained</p>

The promotion of technology and services: Smallholder productivity is also dependent on the constant innovation of not only in-field practices, but also the tools and services that reduce the costs and increase yields. PROFIT continued to facilitate the promotion of important technologies such as irrigation and key services such as spraying and tillage. PROFIT has moved to more closely integrate the technology and service delivery activities with the retail expansion. Of particular importance is the process of establishing a link between the service providers and retailers to ensure commercial incentives drive standards and certifications for the proper and effective delivery of certain services. PROFIT is facilitating commercially motivated agreements between retailers and spraying and tillage service providers.

PROFIT Technology and Service Development Highlights

INPUT SUPPLIER	DISTRICT	CHARACTERISTICS	PROGRESS TO DATE
Vinco Ltd	Kitwe	Independent input and equipment supplier	Promotional events in Kitwe provided Vinco Ltd with initial sales of ZMK200,000 and were attended by over 100 smallholders.
Minelands	Chongwe/Mumbwa & Chibombo	Small agency affiliated to Cropserve	Chokwadi and Minelands finalized a deal to stock treadle pumps in Chongwe. Initial orders of 25 pumps have been placed by 3 communities. Community agents have been identified and training is planned for next quarter in product knowledge, business skills including marketing, customer relations, and administration skills

INPUT SUPPLIER	DISTRICT	CHARACTERISTICS	PROGRESS TO DATE
Precision Farming	Mkushi	Agricultural machinery sales Commercial agricultural contractor	Marketing strategy targeting smallholders was drafted and is now under consideration at Precision headquarters. PROFIT assisted in drafting the marketing plan and will assist in the implementation which will include tillage, seed supply, chemical input supply, spraying and marketing services and products
Landserve	Mkushi	Independent input supplier Commercial focus but increasingly aligning to smallholder market	Paprika grading and standards demo was conducted by Capsicum and Landserve to the 13 farmers in the pilot project. Paprika samples were presented to the buyer to determine prices as indicated below: A Grade: ZMK3600/kg B` Grade:ZMK2500/kg C` Grade: ZMK1000/kg Farmers have started delivering their graded paprika to Landserve for loan recovery and cash payments.
Chokwandi	Chongwe	Small Treadle pump manufacturer Agency affiliated with Cropserve	Two promotional events were conducted in Kapete and Mulola communities resulting in sales of ZMK480,000. A deal is being negotiated to provide 50 treadle pumps on credit via third party financier (Microfinance for Poverty Reduction in Zambia). Chokwadi offered to give a 10% discount on an order of 10 pumps or more and a six month guarantee. The credit line terms include a 75% down payment and the farmer will enjoy a further 5% discount if payment is made within agreed time.
Siasikabole Village	Choma	Cotton producing community	Three sprayer service providers provided services to 22 cotton farmers. The agreed rate is ZMK50,000/season adding up to ZMK1,100,000. These spraying service providers are in negotiations with Cropserve to have a formal relationship.
Arrupee	Choma	Inputs and tillage services retailer	Arrupee conducted initial promotional event and is in final negotiations with two communities to deliver tillage services to a possible 90 hectares.
Jones	Choma	Tillage service provider	Jones has conducted promotional events in two communities and is in final negotiations to provide tillage services.

INPUT SUPPLIER	DISTRICT	CHARACTERISTICS	PROGRESS TO DATE
GREENBELT/ Zambian Fertilizer	Choma & Kalomo	Local, semi-independent agency of national fertilizer producers	Greenbelt and Zambian fertilizer have agreed to establish commercial relationships with Bbilili and Kalomo with a promotional event set for 21/07/06. An agent was identified and is responsible for mobilizing farmers.

Challenges

- Expectations of subsidies or handouts remains a challenge especially when working with groups that have worked previously with other donor programs
- Retailers often lack management capacity in terms of retail management skills, marketing, and promotional strategies
- Retailers can have a hard time understanding the potential that services provide in terms of a sales platform for their products.
- Staff have at times reverted back to traditional field day concepts and have muddled commercial messages.

Activities Planned for Next Quarter

- Continue to work with private sector to assess risks and rewards involved in differing forms of network expansion.
- Scale up activities in the commercial tillage and spraying service sectors.
- Initiate activities under the signed MOUs.
- Push the links between spraying service providers and retailers.
- Push the bundling of products and services tied to cash-flow-timed marketing/promotional campaigns.
- Further integrate a range of irrigation products into the retail expansion activities.
- Further integrate the contract farming activities to the retail expansion and technology/service promotion activities.

MARKET LEADER ACTIVITIES

COTTON

Overview

The Conservation Farming Unit (CFU) activity is well underway with the initial trainings commenced on July 10, 2006 in Chibombo district. Forty farmer coordinators have been trained in roles and responsibilities, trial layout and conservation farming land preparation, who will eventually train 400 contact farmers. Ten farmer coordinators in Chongwe have gone through the same initial training program and 100 contact farmers are expected to be trained in the second week of August, 2006. The results of the training will not be fully seen until the end of the next growing season. The difficult enabling environment presents some serious concerns as to the health of the cotton industry over this and the coming year. A key to overcoming these difficulties and to greater benefits accruing to smallholders is to increase yields of smallholder farms. As a result, the CFU training takes on an even more important role than initially expected.

Achievements

- 100 farmer coordinators trained in central and southern regions covering Chibombo, Choongwe, Monze, Mapanza, Sinazongwe and Pemba districts in trial layout, roles and responsibilities and CF land preparation.
- 1,000 Contact Farmers have been identified
- Finalization of development and provision of training material for farmer coordinators.
- Demo plots identified by CFU field staff.

Challenges

- The exchange rate and resulting politicization of cotton prices is creating mistrust, and is further limiting the potential for innovation and adoption of key practices and technologies.
- Introduction of VAT, especially for farmers who have no tax clearance certificate, will cause farmers to sell the crop in the wrong channel and hence a high default ratio will be recorded as a result of side selling, causing the lead firm to experience a high percentage of non-repayments loans.

Activities Planned for Next Quarter

- 50 farmer coordinators to be trained in Monze.
- Identification, selection and training of 50 farmers coordinators in Mumbwa.
- Training of 1000 contact farmers in southern and central regions.
- Completion of design of farmer coordinators' demos and trials.
- Early tillage of plots

HONEY

Overview

Honey in Zambia is facing a serious competitive threat, which is partially due to the poor enabling environment, but also due to the poor yields and high transaction costs of smallholder production in Zambia. To overcome this competitiveness threat, PROFIT is working with Forest Fruits, the leading honey processor, to deal in several ways. The first is a continuation of the previous quarter's activities to increase the effectiveness of their outgrower model via the support of technical expertise internal to their scheme. With the additional technical expertise Forest Fruits was able to increase its smallholder yields from around 350 tons last year to over 400 tons this year.

The second way PROFIT is working with Forest Fruits is to improve its extractive technology. Smallholders remain wedded to their traditional bark hives, and while PROFIT is helping to move early adopter to more efficient hive technology, it is unlikely that in the near to medium future many smallholder will move to the better technology. As a result, conventional methods for extraction cannot capture enough raw honey to make smallholder yields competitive at international levels. New methods for extraction are well underway and present a potentially critical step in improving the overall competitiveness of Zambian honey.

The last way PROFIT is working with Forest Fruits is to assist in exploring processing capacity for propolis production. Moving from a low value to a high value part of the honey market can limit the inherent competitiveness threats due to high transaction costs.

Achievements

SUCCESS STORY – NORTHWESTERN PROVINCE BEEKEEPING

Mr. Lovington Kayinda is a 44 year old bee keeper from Mbuya village, in Jimbe. He is married and has 7 children. He started beekeeping in 1984. He used to produce 125kgs (5 buckets) of honey from which he would earn ZMK100,000. Mr. Kayinda had problems consistently finding buyers, did not have access to new beekeeping and hive technology, and was not producing at the levels he knew was able

Forest Fruits a Zambian processor of honey has been developing its outgrower scheme in the Northwest province for just about three years and in that time beekeepers have begun to see the benefits that include a stable market, transparent pricing, access to extension, and access to value chain finance. While progress was made, Forest Fruits continued to have difficulties in getting beekeepers to adopt proper hive management techniques that would allow the beekeeper to achieve cost effective yields. Further, as a result of the poor adoption rates leading to low yields, farmers have had problems repaying their input loans via honey production.

PROFIT entered into an agreement with Forest Fruits to work internal to their outgrower scheme to increase its effectiveness in fostering innovation among beekeepers. In the first year of the joint effort beekeeper production grew by 60 tons and beekeepers like Mr. Kayinda are reaping the benefits. In 2006, Mr. Kayinda's production rose to 425kgs (17 buckets) earning him an income of ZMK500,000. With the increased income, Mr. Kayinda has invested in his housing, paid school fees, and diversified his income generating activities into livestock and crop production.

PROFIT and Forest Fruits continue to work on improving the outgrower scheme, including the introduction of local outlets for modern hive technology and increased flows of knowledge on and incentives to adopt modern hive management techniques.

- Large increase in overall yields from 350 to 410 tons.
- Improved effectiveness of communication between Forest Fruits and smallholder outgrowers.
- Improved effectiveness of equipment use and value chain finance.

Challenges

- High value of the Kwacha and low extraction rates will limit the benefits to smallholders and put financial stress on Forest Fruits limiting their ability to invest in needed technology.

Activities for Next Quarter

- Work with Forest Fruits on rolling out extraction technology and cost benefit analysis of propolis processing capacity.
- Assess smallholder productivity and outgrower scheme to determine area of improvement.
- Design structural improvements to outgrower scheme and action plan for implementing changes in conjunction with a potential innovations grant.

HIGH VALUE HORTICULTURE -- Freshpikt

Overview

PROFIT is working with Freshpikt to expand its smallholder suppliers. In particular PROFIT is assisting Freshpikt in the areas of pineapple production in the Northwest and tomatoes and sweet corn in the Lusaka area. PROFIT continued during the quarter to assess the commercial viability of pineapple production in the Northwest. The relatively high production and transaction costs compared to the relatively low end canned fruit market that Freshpikt is targeting means that margins are very tight. The tight margins are further tightened due to the high value of the Kwacha that pushes the returns to farmers even lower. PROFIT is working with farmers to determine a multi-market production strategy that would maximize returns and allow farmers to establish an important link to Freshpikt.

In tomatoes and sweet corn, the PROFIT staff member working within the Freshpikt outgrower scheme has worked closely with farmers and cooperative managers to ensure production and quality requirements are met. While farmers have gained a high level of farming capacity from their time with Agriflora, the management of the cooperative is limited in its ability to manage its affairs (i.e., finances, third party relationships, etc.) The result is that there is some question as to the value addition provided by the cooperative. PROFIT is working with Freshpikt and the farmers to address these weaknesses, and is moving towards an exit strategy in which the staff member will be hired by Freshpikt or the cooperative.

Achievements

- Established a large and growing outgrower scheme with seven registered cooperatives comprising 415 farmers of which 115 are fully participating in the outgrower scheme programs. See chart attached.
- Success likely to lead to increased investments in smallholders.
- Established trust with large food processor.
- Expected crop yields stands at 93 tons.

Recruitment indicator and current statistics under Freshpikt

	Name of Cooperative	Membership		HA			Seed Kgs
		Total	Active	Total	S/Corn	Bean	
1	Leobex	60	24	39.5	31	8.5	425
2	G-East	65	14	11.5	0.5	11	5,475
3	Nyemba – Kasupe	98	25	10	-	10	500
4	Lusaka-South	48	5	5	-	5	300
5	Lilayi	54	11	9	-	9	450
6	Makeni	60	26	8	-	7	400
7	Buteko	30	10	10	-	10	500
TOTAL		415	115	93	31	60.5	3,150

Challenges

- High value of Kwacha means low Kwacha price for farmers
- Limited management capacity at farmer organization can limit the value addition of the intermediation function.

Activities for Next Quarter

- Work with Freshpikt to determine viability of pineapple processing and potential for investing in farmers.
- Work with farmers to determine viability of pineapple production and potential for implementing multi-market strategy that includes high volume low margin production.
- Assess outgrower model for tomatoes and sweet corn and identify weaknesses.
- Target weaknesses in revised action plan for PROFIT staff working in Freshpikt outgrower scheme.
- Clarify exit strategy with Freshpikt on tomatoes and sweet corn outgrower model.
- Expansion of Freshpikt outgrower scheme via additional cooperatives, including 2 cooperatives in Kafue, the Kasenji youth project, a Mungu cooperative, and Chongwe vegetable growers (i.e., comprising of Kanakantapa and Chongwe district business associations and ZNFU farmers associations).

HIGH VALUE HORTICULTURE -- Capsicum

Overview

PROFIT continued to work with Capsicum to pilot a more localized and less dependent outgrower model. The model developed in Mkushi has worked well once the local agent activities were shifted from a stand alone agent to the local input provider. During the quarter the buyer met with the farmers and input provider to discuss price, structure, and potential for next year. The buyer was happy with the yields and quality, and the role and capacity of the input provider. While the buyer is very interested in scaling up the model, PROFIT is currently monitoring the buying and credit repayment process to determine the real potential for scaling up. At the time of writing, paprika grading was underway, Capsicum had set pricing (A Grade: ZMK3600/kg; B Grade: ZMK2500/kg; and C Grade: ZMK1000/kg), and the agent/input provider has indicated a willingness to expand the scheme in the next season.

PROFIT is also assisting Capsicum in developing a similar model in the south, although the role of the agent remains as an independent business and has not been rolled into the input provider. PROFIT has not developed a financing facility for the southern outgrower model and will only determine this after talking with the buyer to determine his assessment of the agent and the farmers.

Achievement

- Buyer, input provider and farmers seem to have developed a trusting rapport.
- Localizing the agent, input, and extension roles increased the flexibility and robustness of the scheme to deal with an uncertain market and enabling environment.
- Financing model has potential for scaling up and even formalization given that the repay rate remains high and input providers are able and willing to take on the management role.

Challenges

- High value of Kwacha means low Kwacha price for farmers.
- Expectation management given poor enabling environment (i.e., buyer's long term commitment to Zambia is a question).
- Limited broader leadership in the Zambian paprika industry.

Activities for Next Quarter

- Assess credit facility to determine scalability.
- Work with buyer on action plan for next season.
- Assess southern outgrower structure design action plan for credit, lead farmer and extension roles.
- Work with input provider in Mkushi to assess role and interest in continuing as agent and credit provider.

MARKET SCANNING

Overview

PROFIT continues to analyze and test pilot interventions to determine potential for returns and to determine whether a market leader or market development approach is warranted. Specifically, over the previous quarter, PROFIT activities in paprika have moved from pilot to a more focused effort to establish localized outgrower schemes that are driven by, but not overly dependent on a single buyer. In addition to efforts that remain under investigation from the previous quarter including African Spices and the Castor Company of Zambia, PROFIT has investigated opportunities in bio-diesel. At present, PROFIT sees some potential in this area, but there are concerns about income generation during crop maturity, initial capital investment, longer-term availability of market opportunities, and selecting the most effective crop given market requirements and smallholder limitations.

Other market scanning activities included efforts by PROFIT to promote ZACA's warehouse receipts program. PROFIT was active in building awareness among a number of cooperatives that had ties to previous CLUSA programs. PROFIT has also initiated talks with a group of smallholder farmers in Chinyanya (Kafue District) and an infrastructural development company to initiate a sugar production scheme tied to Kafue Sugar.

Name	Location	Description	Explanation
African Spices	Southern Province	A small company producing chilli products for the regional market and with a contract to supply the manufacturers of tabasco products in USA	PROFIT is still discussing how to proceed in assisting African Spices in expanding its outgrower scheme and piloting training structure
Stravendale Farm	Chingola	Commercial farm supplying fresh vegetables to the local and DRC markets	Stravendale Farm and the 5 farmer representatives from the Copperbelt farming communities met to negotiate the OGS guidelines and structure and a list of 181 farmers have since drawn. Third party input supplier identified and currently working on logistics.

The Innovations Grant facility has also fulfilled its role as assisting in the market scanning function. Through the grant process PROFIT has identified opportunities in organic specialty oils and SMS services. The process has also identified a new opportunity in tourism that is promising.

Activities Planned For Next Quarter

- Further discussions with Zambian Sugar outgrower expansion
- Initiate pilots for SMS services.
- Finalize and launch tourism program
- Perform additional analysis on jatropha opportunities
- Continue general market scanning activities

GRANTS MANAGEMENT UNIT

Overview

The Agribusiness Forum grant was finalized during the period and was provided to USAID for concurrence. The grant for Zambia National Farmers Union (ZNFU) was also finalized during the quarter and will be forwarded to USAID for concurrence early in the next quarter.

PROFIT has begun designing the dairy directive program, including solicitation design. The competition for the directive will be initiated during the next quarter.

PROFIT finalized and signed the memorandum of understanding with African Parks during the quarter (see annex 2). The memorandum details the program that PROFIT will implement in close coordination with African Parks. The program also includes a grant to African Parks to provide support services and technical advice from PROFIT during implementation of the program.

The Innovations Grant Fund selection process has progressed through the first stage. Seven applicants were selected to move on to the second phase of the two phase selection process. These applicants will now undergo more intensive analysis to determine if they comply with PROFIT's intervention principles and can produce lasting impacts.

Innovations Grant Competitive Range Summary:

Organization	Contact	Industry	Value
Forest Fruits	Dan Ball	Honey	\$80,000
Cheetah	Bettina Schoop	Paprika	\$50,000
Ecolift/Mukuni Dev Trust	Ross Ferguson	Tourism	\$40,000
Kalahari Oils/ASNAAP	Charles Wamulwange	Oil Prod	\$40,000
ECE	Kasonde Shapata	SMS servcies	\$50,000
LADT	Moses Shimbilimbili	Cashews	\$30,000
Mkushi DFA	Martin Mwansa	OGS – staple crops	\$20,000
TOTAL			\$310,000

Activities Planned For Next Quarter

- Begin implementation of ABF grant and link to bank training effort.
- Finalize ZNFU contract and signing.
- Finalize African Parks Grant.
- Make final Innovations Grant awards.
- Finalize dairy directive solicitation and initiate competition
- Development of the FY06 PROFIT PEPFAR program description and the issue of a solicitation for its management.

CROSS CUTTING ISSUES

HIV/AIDS: The PROFIT HIV project was extended through a No-Cost extension for the period 1st April - 31st June 2006, to allow for activities that were suspended during 2005 to be completed.

With the targets for the number of community Peer Educators to be trained, and the number of community programs to be established reached by the end of FY05, no further Peer Education training took place. The primary activities undertaken during this reporting period related to supporting the existing community HIV programs that have been developed under PROFIT project, and included:

- Undertaking Peer Educator review meetings, providing support to the Peer Educators, receiving their sensitization reports, and providing guidance on workplan development and activities that could be undertaken at community level
- Undertaking monitoring and evaluation activities at community level
- Verification of M&E data for the whole PROFIT project
- Development of Peer Educator tools for implementation on completion during FY2006
- Financial review and close-out of the FY05 project

Peer Educator review meetings were held in Kabwe, Serenje, Mkushi, Solwezi and Chongwe:

Area	No of PE participants	No of reports received	Total no sensitized		
			Male	Female	Total
Kabwe	24	37	960	833	1,793
Serenje	27	33	820	1,025	1,845
Mkushi	26	1	66	15	81
Solwezi	20	27	660	716	1,376
Chongwe	29	47	1,161	1,056	2,217
Total			3,667	3,645	7,312

A total of 7,312 community members were reported as sensitized from the areas where PE review meetings took place.

The total project achievements to date are:

Indicator	Achieved
Number of Peer Educators trained	499
Number of community HIV programs established	499
Number of individuals sensitized on AB prevention	157,312

In addition to the work by CHAMP, PROFIT is working on facilitating a range of marketing and promotional tactics that can help shift smallholder, especially families with limited labor capacity, from working the land to managing the land. For example, families can now buy tillage and spraying services that can cut labor requirements immensely. Weeding and hand tilling alone can take months of man hours of hard physical labor. These time-consuming and physically draining activities can substantially reduce the ability of families affected by HIV to remain economically active. PROFIT is also working with input dealers and service providers

to bundle inputs and services into yearly farm-packs that could further extend the affected families' ability to maintain their economic independence.

Finance: PROFIT initiated a bank training assessment that will be completed in quarter 3 of 2006. The assessment will lead to a training program, which will be conducted by PROFIT in quarter 4 of 2006 or quarter 1 of 2007. With the kick off of the ABF grant, PROFIT will work to integrate the finance component of the ABF grant into the bank training effort. PROFIT has also begun investigating opportunities to scale up the outgrower financing model it tested in paprika, develop a value chain financing guarantee mechanism, and facilitate mobile phone banking and payment services rolling to rural areas more quickly.

ICT: In addition to investigating mobile phone banking and payment services, PROFIT has also begun discussions with two services providers to assist them in rolling out a range of SMS services tied to agricultural production. The services would be provided directly to small or via ag-input retailers or lead firms. PROFIT expects to pilot targeted SMS services in quarters 3 and 4.

Gender: PROFIT is looking at the gender issue in a range of different ways. While PROFIT is primarily working in industries that are the traditional domains of men, by using retail marketing tactics to target income during harvest time PROFIT may be able limit some of the traditional shortfalls of male controlled household finances. For example, a combination of limited planning and cash management capacity and strong social pressures among male farmers has lead many farmers to use proceeds from harvest time on non-productive (for the farm or family) purchases. Through its ag-inputs efforts, PROFIT is targeting farmers to use those funds to pre-pay for critical inputs and services thus limiting the farmer's susceptibility to peer pressure.

PROFIT is also going to initiate in quarter 3 an analysis to determine the effect of PROFIT's activities in traditional male dominated industries on women, and provide recommendations on ways to foster increased female participation. At the same time, PROFIT must remain focused on increasing the overall capacity of the community to contribute to and benefit from its participation in commercially driven agricultural and natural resource industries.

DRAFT

MEMORANDUM OF UNDERSTANDING BETWEEN CROPSERVE AND PROFIT

This Memorandum of Understanding (MOU) constitutes an agreement between PROFIT and Cropserve to work together in an effort to develop internal Cropserve tools for targeting small-holder rural clientele. The agreement covers the following four activity areas in which PROFIT and Cropserve will jointly work in developing and launching the use of these tools:

Activity Area One: Development of a network expansion plan for rural areas, including training modules for agents and buyer club presidents

The plan will detail processes and criteria for the following:

- How to identify/target a community
- How to link the community to the cropserve network.
 - Define whether Cropserve should utilize a low medium or high risk strategy
 - Develop guidelines for a buyers club (BC) that organizes bulk purchases that would be open for discounts and/or include transport – would include the development of buyers club training for BC Presidents that would include bookkeeping, product training, and some sales training
 - Develop guidelines for community agents – that organize and push bulk sales – based on a commission sales relationship. This would include the development of an agent training program that would cover extensive product and sales, as well as other basic business knowledge
 - Develop guidelines for cropserve to determine when to establish community-located shops – possibly via a franchise model or a wholly-owned store
 - Use of cell phones as a tool to push BC and agent networks: access to cell phones for all new agents and BC presidents – to facilitate ordering and promotional push efforts via SMS.

PROFIT will provide technical assistance in developing and testing buyers club, community agent, and wholly-owned shop expansion models. PROFIT will also provide technical assistance and some initial cost share in developing and testing training for buyers club presidents and community agents. Cropserve will provide staff and time and all other costs for developing, testing, and implementing the expansion plan and training modules.

Activity Area Two: Development of internal Cropserve guidelines for conducting effective live in-community product and service promotional event

The guidelines will provide step by step instructions on organizing and conducting in-community event for promoting Cropserve products and services. The guidelines will include, but not limited to the following topics:

1. product selection process
2. mini-presentation on a single product's benefits,
3. demonstration of that product's benefits and usage
4. interactive exercise that gets farmers to express what they have learned – could include contests or other exercises where promotional items can be used for individuals that demonstrate that they understood pre-defined messages
5. Repeat process for the next product – each demo should limit number of products targeted and the demo should end with the ability of the community to buy the product
6. The demo should also highlight potential service offering via Cropserve, including buyer clubs, and spraying services

PROFIT will provide technical assistance in developing and testing the guidelines. Cropserve will provide staff time and all other resources in developing, testing, training, and rolling out in-community promotional events.

Activity Area Three: Development of internal Cropserve guidelines for using a range of product promotional techniques to attract smallholders, including:

Initially PROFIT and Cropserve will design and test a range of promotional tools. Based on the effectiveness of various tools tested, internal guidelines will be developed to assist regional store managers to properly utilize a range of promotional tools for promoting Cropserve to smallholders. Potential promotional tools to be tested will include but not limited to:

- Price Discounting: A time-specific promotional price of a product, buy-one-get-one free or discounted
- Coupons: targeted use of coupons via hard copy and soft copy coupon distribution, including guidelines on distribution and redemption procedures and processes.
- Gifts with purchase: used to push a new or certain product
- Competitions and Prizes/Contest: Use of regional contests to boost sales – promoted via radio or SMS.
- Frequent user/loyalty incentives: enhance Cropserve's buyers club plan – via SMS and other targeted promotional tool such as regional/community radio

PROFIT will provide technical assistance and limited cost share in designing and testing a range of different promotional tools and will provide technical assistance in developing the resulting guidelines. Cropserve will provide staff time and all other

resources in designing and testing the tools, developing the guidelines, providing staff training, and rolling out promotional tools that were found to be effective in attracting smallholder clientele.

Activity Area Four: Design and launching sprayer services

The design will include both spraying services that directly and indirectly delivered by Cropserve. Part of the design will include guidelines for establishing training sprayers

- Guidelines on establishing direct spraying that include identifying sprayers, establishing payment options (direct salary, commission, combination, etc.)
- Guidelines on establishing indirect links to sprayer service providers (via lead farmers, community-based providers, etc.) to local Cropserve stores/community agents, including establishing exclusive agreements for all indirect sprayers for new sprayers, sprayers spare parts, chemicals, and training
- Prepare guidelines for training sprayer service providers and certification
 - Chemical Handling
 - Spray techniques
 - Spray maintenance and operation
 - Sprayer calibration
 - Sales and marketing
 - Basic business management

PROFIT will provide technical assistance and limited cost share in developing the guidelines for establishing direct and indirect spraying services. PROFIT will also provide technical assistance and some limited cost share in designing and launching the initial training for sprayers. Cropserve will provide staff time and all other resources in developing the guidelines, designing and providing staff training, and rolling out Cropserve spraying services to smallholder clientele.

Annex 2

**MEMORANDUM OF UNDERSTANDING
(MOU)**

Between

AFRICAN PARKS ZAMBIA LIMITED

And

USAID/PROFIT

**Collaboration in provision of sustainable economic development initiatives to
Communities living in and around Liuwa Plains National Park
2006 - 2010**

June 2006

This **MEMORANDUM OF UNDERSTANDING (MOU)** is made the Day of Two Thousand and Six between **AFRICAN PARKS ZAMBIA LIMITED** (herein referred to as **APZ**) on the one hand and **USAID/PROFIT** (herein referred to as **PROFIT**) on the other part.

WHEREAS:

- a) **APZ** has a management contract with Zambia Wildlife Authority (**ZAWA**), and the Barotse Royal Establishment (**BRE**), for the management of Liuwa Plains National Park (**LPNP**) for 20 years effective May 2004.
- b) **APZ's** main responsibility is the conservation of wildlife in LPNP.
- c) In carrying out this responsibility, **APZ** is desirable to provide specific initiatives to the Communities living in and around LPNP in order to keep them engaged in alternative commercial activities and ventures that are aimed at keeping the Communities away from poaching activities.
- d) **PROFIT** has undertaken to collaborate in the sustainable economic development of the Communities living in and around LPNP in Western Province, as outlined in **Annexure 1**.

NOW IT IS HEREBY AGREED AS FOLLOWS:

- 1. This MOU will be effective 2006, and will run for the 4 years that the PROFIT Project is envisaged to run.
- 2. To the extent possible, APZ will, at no profit to itself:
 - a. Provide support in terms of community development staff time, community and traditional leadership contact network.
 - b. Provide access to the APZ communication network, provided that APZ work will not be negatively affected.
 - c. Provide maintenance and servicing to PROFIT motorbikes, at a fee provided that APZ work will not be negatively affected.
 - d. Levy PROFIT a management fee to cover the APZ staff time and other unquantifiable resources that will be made available to PROFIT.
 - e. Assist with boat and other forms of transport, at a fee provided that APZ work will not be negatively affected.
- 3. On its part, in the execution of its project, PROFIT will:
 - a. Assume full responsibility for all compliance requirements, including those of the Zambian Government statutes and USAID.
 - b. Provide technical field staff and training budget.
 - c. Pay an agreed management fee to APZ to take care of overheads associated with APZ responsibilities as outlined above.
 - d. Provide technical and administrative oversight from Lusaka.
 - e. Provide all logistics (motorbikes, fuel and spares) for the field staff.
 - f. Assume responsibility for providing the revolving fund seed capital to the community projects.
 - g. Compile quarterly progress reports to APZ, for information only.

For the purposes of this MOU, the two parties will be represented by the following:

PROFIT: Michael Field

APZ: Vincent Kamuti

TERMS OF UNDERSTANDING

The term of this MOU is for a period of four years until March 31st 2010. It shall be reviewed on an annual basis every March to review progress and ensure that the MOU is fulfilling its purpose and to make any necessary revisions.

AGREEMENT MODIFICATION AND TERMINATION

Either party may terminate this Agreement by providing sixty (60) days written notice to the other party but may be amended at any time by mutual agreement of the parties. In the event this Agreement is terminated, each party shall be solely responsible for the payment of any expenses it has incurred.

CONFIDENTIALITY

All information gained from the work carried out on the partnership's behalf will remain the property of the partnership until the partnership is formally disbanded.

AUTHORISATION

The signing of this MOU is not a formal undertaking. It implies that the signatories will strive to reach, to the best of their ability, the objectives stated in the Memorandum of Understanding.

SIGNATURES AND DATES

.....
Rob Munro
PROFIT

.....
Date

.....
Vincent Kamuti
APZ

.....
Date

ANNEXURE 1

PRODUCTION, FINANCE AND TECHNOLOGY (PROFIT)

SUSTAINABLE ECONOMIC DEVELOPMENT PROJECT TO COMMUNITIES LIVING IN AND AROUND LIWA PLAINS NATIONAL PARK: 2006 - 2010

I. MISSION

To collaborate in the sustainable economic development of the communities living in and around Liuwa Plains National Park in Western Province to provide the communities with greater access to and benefits from commercial markets, to increase the ability to withstand external shocks and decrease the economic need to unsustainably exploit the natural resources in and around the Park

II. PURPOSE AND SCOPE

PROFIT will provide financial and technical support, over a period of four years to the Communities living in and around Liuwa Plains National Park, in development activities described below, in a manner that complements APZ Community Projects. PROFIT staff will operate alongside APZ and work closely with the Community development staff within APZ. The initiative will be seen as a partnership between the two parties and both parties will ensure that public information, methodology, and approach are consistent to prevent confusion among clients and other stakeholders.

The outline of the PROFIT integrated program is as follows:

Objectives:

- 1) To provide the community with the services and skills needed to make more informed and higher returning economic decisions
- 2) To increase sustainable access to critically important health care services.

Activities:

1) Initiating a village savings and lending mechanism that allows the community to better utilize its own resources.

The Village Savings and Loan (VS&L) model is a savings-based approach that has proven on a very large scale across Africa that it can provide sustainable and profitable savings, insurance and credit services to people who live in places where banks and MFIs do not have a presence.

Village Savings and Loan Associations (VS&LAs) are self-selected groups of people, (usually unregistered) who pool their money into a fund from which members can borrow. The money is paid back with interest, causing the fund to grow. The regular savings contributions to the group are deposited with an end date in mind (usually between 8 and 12 months) for distribution of all or part of the total funds (including interest earnings) to the individual members, usually on the basis of a formula that links payout to the amount saved. This lump sum distribution provides a large amount of money that each member can then apply to his/her own needs. Members of VS&LAs receive a return on their savings investments that go from a low of 30% per annum, to a high in excess of 100% - far more than is paid by any commercial bank anywhere in the world. They are able to save when they need and in

whatever amount they wish. They are able to borrow with a minimum of fuss, with loans and insurance benefits approved by their peers, and can obtain loans that range from small change to several hundred dollars. Typical loans are in the order of \$10-20, which is far too small for MFIs to consider. Members are also able to receive insurance services, mitigating the effects of unforeseen disasters, and can set up funds for school fees, festivals and other predictable annual events.

PROFIT will work with VS&L experts to develop and implement a plan to initiate VS&LA schemes in 20 to 30 groups surrounding the park. The schemes are self-financing so sustainability is dependent on community interests and commitment.

2) Improving community livestock activities and commercial linkages

This activity comprises two components:

- **Vet and Herd Management Services**

The Vet services activity will facilitate the delivery of private services to the community on a herd health plan basis. PROFIT is currently working with Veterinary businesses in Western Province to evolve their business plans towards servicing large numbers of cattle farmers, and it is intended that the Liuwa activities will form an intensively managed component of this larger program. The service delivery mechanism includes local community livestock workers that are tied to the Vet and involves an aggregated payment mechanism that reduces all the transaction costs and allows the Vet to purchase consumables in bulk further reducing the price.

In establishing the initial contact between the Vet and the communities, PROFIT will first work directly with the communities to sensitize them on the scheme and determine the willingness and ability to pay. Parallel to working with community PROFIT will assist the Vet in developing a community specific herd health plan for a one-year period for all the cattle in the community. The fees for the participating in the herd health plan will be on an individual animal basis. For example, a person that owns 10 cattle will have to pay for each animal to participate in the service plan. The plan can include not only the provision of medicinal services and advice but also herd improvement components such as artificial insemination services.

Once the herd health plan is completed and the community has agreed to buy services, PROFIT will initiate direct negotiations between the Vet and the community. During the negotiations, the community and Vet will finalize the components of the herd health plan and agree on a payment schedule. During the negotiations PROFIT will also train a community bookkeeper and assist in setting up a clear and transparent accounting process for all transactions (between bookkeeper and individuals in the community and the community and the Vet)

PROFIT will monitor contract performance and act as a third party mediator as disputes, or misunderstandings arise during the first year and will maintain this third party intermediation for the length for at least two years.

Within the context of Vet service delivery, PROFIT will pay particular attention to the specific needs and requirements of the communities living adjacent to wildlife, and facilitate research into wildlife to cattle (and vice versa) disease transfer and its prevention.

- **Market transparency activities**

As Vet services begin to improve general herd health, PROFIT will facilitate more transparent and effective market relationships with the communities. PROFIT will work with the community to assess appropriate market mechanisms and establish an action plan to achieve more transparent and effective linkages. In particular, assessments of new transaction mechanisms such as contract ranching,

feedlotting, graded buying, and auctions will be conducted in coordination with the community. Based on the current market conditions and potential longer-term benefits to the community and its market relationships, PROFIT will assist the community in implementing its action plan.

The specific set of interventions will depend on a range of factors, but are likely to include capacity building, linkages, development of transaction mechanisms (i.e., contracts, auctions), etc.), establishment of grades and standards, access to market information, and development of community-based organizational capacity.

3) Improve commercial tourism and craft activities

PROFIT will work with the communities to perform market research, costing analysis, and price point sensitivity on a range of services and products that can be sold through the campsites. In particular, PROFIT will work with the communities to determine an appropriate mix of consumables (bottled water, vegetables, sundries, bread and other prepared foods, etc.), crafts, and cultural/entertainment services that the communities can sell to tourists. Specific activities such as guided walks, village visits, and canoe safaris will be assessed. Depending on the outcome of the analyses, PROFIT will assist the communities in the following areas:

- **Capacity building** – the community would need improved capacity in the areas of marketing, production, and management. The range and extent of capacity building will depend on the mix of products and services being offered. For example, craft production would have to include higher levels of production capacity including design, production process development, and quality control skills. Capacity building interventions for services would include management and marketing training, customer service, delivery mechanisms, etc. In all cases, PROFIT will also link the community to localized/Zambia resources for on-going capacity building.
- **Marketing assistance** – In addition to capacity building in the area of marketing, PROFIT/APZ would assist the community in implementing more directed marketing efforts at the camps, including some signage highlighting other services and products, and direct marketing to campers when they arrive.
- **Costing and pricing assistance** – PROFIT will also assist the communities to understand and use basic costing and pricing skills to price all products and services to cover costs and include a small profit margin. Costing and pricing will need to fully cover costs including transport and labour costs for all products.

4) Improve access to health care services

PROFIT will facilitate sustainable access to health care services based on a public-private service delivery mechanism. The process of establishing health care services will include:

- 1) **Market/Service Analysis** - PROFIT will conduct an analysis of the current service providers in health care in the region. The analysis will look at the longer-term financial viability, quality and capacity of service offering, and willingness to innovate service delivery model.
- 2) **Service Delivery Model Design** - Based on this analysis, PROFIT will enter into negotiations with the service provider (or providers) to design a service delivery model that meets certain community needs, including increased preventative care, service delivered at community level, aggregated service delivery process, and some fee structure to assure community involvement and increase likelihood of sustainable delivery.
- 3) **Community Payment/Service Organization** - The service delivery mechanism will include community structures that organize community for effective acceptance of service, including support structures such as a store for basic pharmaceuticals and maintenance of health

records. The pharmacy and records keeping functions would best be combined with other retail activities to cost-share fixed asset costs. However, the final structure will be negotiated with the community and integrated with the service provider delivery model. PROFIT will also assure that there are maximum efficiencies by linking VS&L and Vet services activities.

- 4) **Final Negotiated Health Care Contract** - Based on service provider and community needs and capacity, PROFIT will facilitate a contractual relationship between the service provider and the community. The basic outline of the contract will likely follow the same model as the Veterinary services contract to assure a focus on preventative care health care, delineate responsibilities for both parties, and transparent costs for additional services.