



USAID
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QUARTERLY REPORT

Q2 - March 2008

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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	\$ 17,549,830
Total Federal Funds Authorization	\$ 11,285,000
Appropriation	72 – 19X1030
BPC	GGAX-05-21611-1G13

PROFIT INDICATORS		BASELINE	FY07		FY08			Year to Date	
			TARGET	ACTUAL	TARGET	Q1 Actual	Q2 Actual		
Trade/Exports related indicators									
1	Value of purchases from smallholders of targeted commodities (domestic agricultural trade)	\$46,870,313	\$51,674,520	\$25,737,563	\$54,258,246	\$0	\$420,000	\$420,000	
Production/Sales/Value Addition related indicators									
2	Value of Food and non Food Agricultural production by USAID supported groups.	\$5,523,455	\$7,001,270	\$10,352,500	\$7,341,334	\$150,000	\$210,000	\$360,000	
3	Value of sales of all goods and services	\$5,397,833	\$6,902,500	\$11,735,880	\$7,410,350	\$376,177.73	\$265,547	\$641,724.73	
4	Value of resources derived from sustainable natural resources or conservation initiatives.	\$714,978	\$865,123	\$4,564,154	\$951,635	\$190,635	\$210,000	\$400,635	
5	Value of production per unit disaggregated by commodity sector.	Cotton	\$163	\$190	\$347	\$205	\$347		
		Honey	\$4.44	\$4.90	\$6.08	\$5.14	\$7.50	\$7.5	
		Red meat	\$116	\$128	\$198.55	\$135	\$198.55		
		High Value Crop	\$785	\$865	\$2,500	\$909	\$2,500		
6	Value of production per client	Cotton	\$192	\$212	\$640.81	\$222	\$640.81		
		Honey	\$35	\$39	\$61	\$41	\$75	\$75	
		Red meat	\$94	\$104	\$251.10	\$109	\$251.10		
		High Value Crop	\$628	\$692	\$1,250	\$727	\$1,250		
7	Gross Margin per unit	Cotton	\$10	\$11.03	\$165.70	\$11.58	\$165.70		
		Honey	\$2.44	\$2.69	\$3.74	\$2.82	\$5.00	\$5	
		Red meat	\$7.11	\$8.60	\$191.88	\$9.03	\$191.88		
		High Value Crop	\$547	\$603	\$1,958.34	\$633	\$1,958.34		
8	Volume of produce processed (t)	Cotton	19,200	24,192	35,200	25,402	35,200		
		Honey	347	437	15	459	15	265	280
		Red meat	0	255	171	510	171		
		High Value Crop	0	1,000	109	2,000	109	n/a	n/a

PROFIT INDICATORS		BASELINE	FY07		FY08			Year to Date	
			TARGET	ACTUAL	TARGET	Q1 Actual	Q2 Actual		
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	25,000	43,000	45,000	31,440	n/a	31,440
		Vet contract/herd management	0	1,000	672	2,000	1,656	2,395	4,051
		Contract production	37,500	65,000	44,635	75,000	108,500	108,506	217,006
		Improved honey production	0	750	0	1,000	2,466	4,650	7,116
		Input products and services	10,000	100,000	21,974	150,000	10,778	8,497	19,275
10	Area or number of commodities under improved technologies	Conservation farming (ha)	3,200	25,000	43000	45,000	15,720	n/a	15,720
		Vet contract/herd management (hd)	0	10,000	7,780	20,000	411	5,799	6,210
		Contract production (ha)	32,000	60,000	43,015	70,000	108,500	n/a	108,500
		Improved honey production (hives)	0	1,500	0	2,000	60	36,625	36,685
		Input products and services (ha)	10,000	100,000	21,974	150,000	10,778	8,497	19,275
11	Improved technology adoption rate.	Conservation farming	10%	15%	15%	18%	39%	n/a	39%
		Vet contract/herd management	0%	55%	43%	80%	43%	28%	36%
		Contract production	25%	24%	15%	26%	15%	14%	15%
		Improved honey production	0%	10%	0%	15%	2%	16%	9%
		Input products and services	10%	15%	40%	20%	40%	128%	84%

PROFIT INDICATORS		BASELINE	FY07		FY08			Year to Date	
			TARGET	ACTUAL	TARGET	Q1 Actual	Q2 Actual		
Technologies related indicators									
12	Number of hectares under biodiversity conservation.	3,200	25,000	43,000	45,000	15,720	n/a	15,720	
13	Number of hectares under managed natural resource production systems	0	366,000	0	366,000	0	4,166,000	4,166,000	
Finance related Indicators									
14	Value of finance/capital accessed by USAID assisted groups (borrowers)?	\$1,845,045	\$4,000,000	\$1,612,750	\$6,000,000	\$5,066,870	n/a	\$5,066,870	
15	Number of loans by USAID assisted institutions disaggregated by gender	Male		42,014		86,811	n/a	86,811	
		Female		1,028		21,702	n/a	21,702	
		Total	32,000	60,000	43,042	70,000	108,513	n/a	108,513
16	Percentage of the number of loans on schedule for repayment	90%	90%	50%	90%	100%	n/a	100%	
17	Value of loans by USAID assisted institutions disaggregated by gender (lenders)?	Male	\$1,845,045	\$4,000,000	\$1,580,335	\$6,000,000	\$4,053,524	n/a	\$4,053,524
		Female			\$32,415		\$1,013,346	n/a	\$1,013,346
		Total			\$1,612,750		\$5,066,870	n/a	\$5,066,870
18	Percentage of the value of the lending portfolio on schedule for repayment	90%	90%	50%	90%	100%	n/a	100%	

PROFIT INDICATORS		BASELINE	FY07		FY08			
			TARGET	ACTUAL	TARGET	Q1 Actual	Q2 Actual	Year to Date
BDS related indicators								
19	Number of clients/entrepreneurs receiving BDS disaggregated by category e.g smallholder farmers, agribusiness firms	Small holder						
		Male				52,906	7128	60,034
		Female				27,552	2824	30,376
		Total	37,500	100,000	118,979	150,000	188,958	9952
	Agribusiness	2	200	234	300	694	135	829
20	Number of farmers reached with extension/outreach services	Male				52,906	7,128	60,034
		Female				27,552	2,824	30,376
		Total	37,500	60,000	118,979	80,000	188,958	9,952
21	Number of people reached with HIV/AIDS A & B outreach programmes	0	187,500	0	225,000	0	n/a	n/a
Policy related indicators								
22	Number of policy areas worked on or affected if any	0	0	0	0	0	3	3
23	Policy progress milestones – Analysis, debate, submission, approval and implementation	0	0	0	0	0	2	2

PROFIT INDICATORS		BASELINE	FY07		FY08				
			TARGET	ACTUAL	TARGET	Q1 Actual	Q2 Actual	Year to Date	
Training related indicators (disaggregate by gender)									
24	Number of people trained in	Agricultural production							
		Male					7,128		
		Female					2,824		
		Total	32,000	60,000	118,923	80,000	77,892	9,952	87,844
		Private sector growth	40,000	70,000	119,160	90,000	186,864	10,431	197,295
		Nat. Resource Mgmt and Conservation							
		Male					26,952	13,169	40,121
		Female					6,488	6,605	13,093
		Total	5,500	6,000	11,000	7,000	33,440	19,774	53,214

Note

- 1 Other indicators are not filled because data is based on production figures. Most crops in Zambia are harvested around April to June. So we expect to report on the production related indicators in the next 2 remaining quarters
- 2 The value of production per unit, value of production per client and gross margin will be adjusted for next quarter (indicator 5,6 and 7)

USAID OPERATING PLAN INDICATORS				
2.2 Trade and Investment Capacity	FY 08 Target	FY 08 Q1 Actual	FY 08 Q2 Actual	FY 08 Year to date
1. Number of events held that provided training on topics related to improving the trade and investment capacity building	2,000	400	307	707
2. Total value of exports in targeted sectors in which firms are receiving USG assistance to increase their exports				
3.2 Financial Services				
1. Number of financial sector professionals trained in international standards	71	10	46	56
Male	60	7	28	35
Female	11	3	18	21
5.2 Private Sector Productivity				
1. Number of firms with improved management practices as a result of USG assistance	46,600	108,500	1,159	109,659
2. Number of firms investing in improved technology as a result of USG assistance (SD)	23,000	6,071	6,530	12,601
6.2 Agricultural Sector Productivity				
1. Number of additional hectares under improved technologies or management practices as a result of USG assistance	23,000	6,071	6,530	12,601
2. Number of rural households benefiting directly from USG interventions	57,760	116,345	15,643	131,988
3. Number of agriculture-related firms benefiting directly from interventions as a result of USG assistance	760	694	154	848
7.3 Strengthen Micro-Enterprise Productivity				
1. Micro enterprises served by USG-assisted business development service providers	100,000	108,500	15,643	124,143
2. Number of clients of USG-supported micro enterprise business development service providers linked to larger-scale firms as a result of those services	140,000	110,966	4,650	115,616
8.1 Natural Resources and Biodiversity				
1. Number of people trained in natural resources management and/or biodiversity conservation as a result of USG assistance	56,700	33,906	19,774	53,680
Male		26,952	13,169	40,121
Female		6,488	6,605	13,093

Project Highlights for the Quarter

As a result of the systemic approach that PROFIT has taken from the start of the programme, momentum continues to grow in terms of shifting behaviors at every level of the value chains to be more supportive and competitive. Of particular importance during the quarter are seven major indicators of systemic shifts that are improving the competitiveness of the agricultural sector:

1. **ZAMACE:** The maturity and eventual competitive position of Zambian commodity crop sector will be dependent upon a shift to a more volumes-based, low transaction cost trading mechanism. ZAMACE is a critical component of such a mechanism and with its deepening roots into commercial agriculture; it is also an important driver of overall competitiveness. The first forward contract was issued that follows on a trade volume to date of over \$6m.
2. **Smallholder innovation and investment:** Through various promotional events, smallholders continue to express strong demand and interest in taking on new technologies. Of particular interest to smallholders this quarter were the promotional events that demonstrated the benefits of buying professional spraying services. Smallholders are becoming increasingly more mature consumers and investors with an improved understanding of the value proposition provided by professional service providers as oppose to cheap untested products. Smallholders purchased ZMK 173.8m of inputs and services through existing agent/vet networks during the quarter, despite this quarter traditionally being a low sales period for agricultural inputs.
3. **Agricultural inputs industry planning and targeting of smallholders:** The agricultural inputs industry actively engaged in specific planning for the smallholder market with 11 firms planning investments to extend and strengthen their village agent distribution networks. The industry is also actively looking for additional services and products to push through their distribution structures that have resulted in a broadening of service offerings to include preventative animal care services such as tick prevention and de-worming. With over 70 new sprayer services providers trained this quarter alone, the overall total has exceeded 400 service providers.
4. **Private sector and primary source of knowledge:** In areas where agricultural input firms have develop village agent and service provider networks a shift is evolving towards perceiving the private sector as the most trusted and reliable source of expert knowledge. Based on community level surveys conducted by PROFIT, the private sector does become a sustainable and reliable extension mechanism when an appropriate business model is used to promote and service the smallholder market.
5. **Government taking on stakeholder driven oversight process:** Through a process that has slowly brought the Vet Office into vet network meetings, PROFIT was able to facilitate an increased momentum in the government shifting from a perspective of providing direction and sanctions to a more consultative process in conducting their oversight responsibilities. The vet office established a working group with PROFIT to design and pilot a stakeholder driven process that is regionally driven to improve overall livestock development. While still only in its pilot stage this presents a major shift in the way the government participates in the upgrading of key industries.
6. **Lead firms upgrading supply chain management:** The cotton industry continues to see the benefits of shifting their outgrower management structures to being professionally managed using a range of managerial and technological tools. During the quarter, PROFIT has seen a substantial consolidation of this shift with cotton firms pushing preferred supplier, third party services, conducting internal process engineering review, and designing new management information systems. Grounding management decisions in solid information and rewarding

suppliers that reduce cost and increase reliability are two critical improvements. This quarter has also seen a significant 'internalizing' of all of the PROFIT-driven activities into the mainstream field management processes within the companies.

7. **Financial sector upgrading and innovating:** The financial sector continues to see a limited rationale for becoming a more effective intermediary, but movement is starting to happen. In particular, this quarter saw movement in forming the first vendor agreement between an ag-equipment dealer and a leasing company, the growing interest in funding warehouse receipts, the continued upgrading investments at Zanaco and other banks, and the continued progress in rolling out a commercially viable m-banking platform, all of which are starting to foster broader competitive momentum.

SECTOR SUMMARIES

Cotton Industry

Achievements

- The most significant progress in this sector has been a fundamental shift in the attitude of the three main cotton clients from perceiving the interventions by PROFIT within the sector as being beneficial yet external, to becoming fully engaged in a process of internalizing them as integral components of their outgrower management process
- Spray service development activities have been undertaken by PROFIT staff over the last year.
 - Great Lakes Cotton Company has recruited a field manager to drive the rolling out of the programme,
 - Birchand field staff are fully engaged in the process.
 - Dunavant has internalized spray service development into their wider YIELD extension programme.
- The spray service development activities have begun to generate significant interest, validating PROFIT's hypothesis that the integration of a localized service platform is critical to the adoption of new productivity-enhancing technologies.

Region	Cotton Company	Cumulative Total No of Certified Spray Service Providers	Cumulative Total No of Clients	% of Female Clients	Cumulative Total No of Hectares under Contract
Eastern	Dunavant	85	364	41%	437
Eastern	Birchand	57	503	32%	323
Southern	Great Lakes	67	570	30%	660
Total		209	1,437	34%	1,420

Table1. Spray Service provision - Cotton Industry

- The principles of a Preferred Supplier Programme have been drawn up by Dunavant in conjunction with PROFIT. Investment targeted to those groups of cotton farmers with the best performance records and with the greatest ability to upgrade yields and output over the long term. This system will improve efficiencies of the supply chain. The incentive structure includes greater access to training, services and inputs, as well as proposed premiums on quality. The programme will be implemented during the 2008-9 agricultural season
- The Conservation Farming Unit, under the PROFIT grant, provided extension services to 15,124 cotton farmers over the quarter in a total of 112 field days across the country, promoting a range of conservation agricultural techniques.
- PROFIT and CFU staff have met with the regional CFU and PROFIT staff in Central and Western regions to align goals and expectations in order to begin full commercialisation of CF technologies. Minelands, Croppack and Cropserve, have all agreed to leverage their existing agent programmes to support this commercialisation

Table 2: Conservation Farming Training Process

Region	No of Men Accessing CFU Extension Services	No of Women Accessing CFU Extension Services	Total Number of Farmers
Central	3,360	2,240	5,600
Eastern	3,077	2,350	5,427
Western	651	528	1,179
Southern	1,919	999	2,918
Total	9,007	6,117	15,124

- Progress was made towards linking selected, high performing distributors affiliated to Dunavant to financing for tractors through the vendor agreement between ICC and Farmnet.
- The application for Birchard to lease four tractors to provide commercial ripping services to their farmer base was also commenced through the same financing structure
- Discussions were held with the senior management of Cargill Cotton in Eastern Province with a view to PROFIT providing technical assistance to Cargill's field staff in spraying and tillage service development for the coming season.
- Discussions with commercial input suppliers around providing a mass promotion, training and sales service for herbicides into the Dunavant, Cargill, Birchard and Great Lakes production networks have reached an advanced stage.
- Progress on the development of a process management system combined with an SMS based mass communication platform and M-funds transfer system continued over the quarter. At the same time, strategic discussions were started between Dunavant and CAD, the process designers, around Dunavant taking an equity position in the development process with a view to implementing the integrated ICT management platform across their international production base.
- The PROFIT-sponsored campaign to curb the distribution and planting of unregulated and uncertified cotton seed by some of the new entrants into the cotton industry was finalized during the quarter. The campaign, which was in response to an appeal by ZCOPA and CAZ, was implemented by the Seed Control and Certification Institute (SCCI) of the Ministry of Agriculture.

A New Rural Business Benefits All Industry Players

Lazarus Zulu stands in a field of cotton in the shadow of the Mphangwe Hills in Katete District of Eastern Province. The tall weather-beaten farmer smiles as he gestures with pride at the expanse of healthy, flowering crop. The field belongs to his neighbor, Mr. Phiri, and is one of the cotton fields for which Lazarus has a pest management contract for the 2007-8 season. 'You should have seen this field last year', he says, 'the plants were small and it was full of insects. This year Mr. Phiri will get twice the yield he did, because the spraying has been excellent!'

In 2006, Lazarus was appointed by his local community to become a spray service provider under a programme designed by Dunavant and supported by PROFIT. Under the programme, he was trained, tested and certified in scouting, spray safety and application and business skills by Dunavant. In his first year of marketing his services to his neighbors, he says that progress was slow. 'There was a lot of reluctance by farmers to commit to buying my services', he recalls with a grin, 'but when they saw the results in my clients' fields at last harvest, they came running to me'. Lazarus says that the seven hectares he sprayed on contract last year using his new technology Ultra Low Volume Sprayer showed yield improvements of up to 50%, and as a result, during the 2007-8 season, he has 14ha under contract for eight farmers.

Lazarus is one of over 200 spray service providers across the country that three of the major cotton companies have trained, certified and provided with safety equipment through support from PROFIT to spray cotton fields. The programme forms part of a PROFIT initiative to increase the competitiveness of the Zambian cotton industry through facilitating the development of a localized service platform through which the ability and improved equipment of the better performing farmers within the cotton sector are harnessed on a commercial basis for the benefit of other farmers, the service provider and ultimately the cotton industry as a whole.

In the case of spraying, farmers sign a contract with the service provider at the beginning of the season under which their crop is routinely scouted for pests and sprayed where necessary. The farmer provides the chemical and the water, and the service provider his time, equipment and knowledge, and the average cost for the season is K35,000.

This simple business transaction between two farmers has proved very successful. As well as a better quality, higher yielding crop, the clients now receive the benefit of a trained sprayer with good equipment, applying the right volume of chemical as and when necessary. Chemical usage and related costs have dropped by as much as 30%, the clients' time is freed up to concentrate on weeding and other productive farm activities and they benefit from what has become a commercialized local extension service.

But, as Lazarus explains, there has been an unexpected benefit: 'Four of my clients are widows, who usually have no access to spraying and produce a very poor crop. Now they tell me that with a reliable spray service, they will harvest more, and plant more next year'. The same can be heard across the country; that woman, the elderly and widows comprise a disproportionately significant percentage of spray service clients – on average about 40%.

With higher yields and a multitude of other benefits arising from engaging a service provider, it is not surprising that more and more farmers are asking for the service. Lazarus shrugs his shoulders 'Next year I will just have to employ an assistant'. And with an expected income of over K1.1m from this year's spray work, Lazarus is not complaining.

Challenges

- Difficult climatic conditions, farmer conservatism and a poor supply of batteries through Dunavant were constraints on the widespread adoption of spraying services in Eastern Province
- Adverse weather conditions in Southern Province hindered the demonstration plots created under PROFIT's Integrated Pest Management training component with Great Lakes
- With low volumes of cotton predicted due to lower than expected uptake by farmers and difficult growing conditions, and a larger number of industry players with differing approaches to supply chain management, a major pirate-buying crisis is predicted, particularly in Eastern Province

Activities Planned For Next Quarter

- Increase in Programme investment in assisting Dunavant to implement the Preferred Supplier Programme in Eastern, Central and Southern Provinces
- Start working with Cargill on localized service development
- Work with Great Lakes to internalize and scale up the spray service development process in preparation for next agricultural season.
- Assist ZCOFA and CAZ with an anti-pirate buying publicity campaign
- Finalize plans for facilitating mass third party input and technical information provision, particularly to meet the growing demand for herbicides within the cotton sector
- Training of 2,000 Contact Farmers and 60,000 Associated Farmers and Additional Farmers in Training Period under the CFU grant.

Finance Industry

Achievements

- Finalized agreement with Zanaco to assist in initiating agricultural services department in the bank
- Initiated technical assistance to Zanaco on market research to determine the range and delivery mechanism for servicing rural population.
- Initiated technical assistance to Zanaco to integrate a corporate social responsibility program that focuses on branch level capacity building to SMEs into their broader strategic goals.
- Initiated technical assistance to First Alliance Bank on credit policy changes and staff capacity building.
- Initiated technical assistance with ICC leasing company and Farmnet to foster the emergence of a vendor agreement. The agreement is in the last stage before being finalized with test-case deals being reviewed.
- Initiated an assessment of the regulatory environment of the leasing sector in coordination with the Bank of Zambia.
- Launch of commercially grounded exchange and warehouse receipts system with total trades to date \$6.6 million.
- M-banking activities continued to progress with key technical upgrades to the platform with a shift to java-based application for smallholders without phones. Progress also continued to commercial roll out with agreements with key players such as Dunavant and discussions with a range of banks.
- Off the shelf sales of coretalk an SMS management system has increased sharply with firms testing the product through a PROFIT promotional mechanism. The coretalk product is being used by agricultural input firms, vets, financing firms, and large out growers to reduce their communications costs and improve their overall management efficiencies. Sales growth has lead to negotiations with a large cell phone company on distribution.

Challenges

- The banking sector remains reluctant to engage in the necessary upgrading resulting in limited internal capacity among banks to perform proper analysis and effective operations. The reluctance comes from the fact that banks are still achieving acceptable margins from their Treasury bill investments, fees, and limits market for loan products.
- Zanaco transformation is taking more time as Rabo learns how to manage the cultural change from a stagnant state owned banks to an aggressive commercial bank.
- The second tier in the equity market has been delayed for months limiting some efforts to foster bond issuances and the possible equity options as well as the fostering of financial management and service options.
- The lackluster financial services sector has foster highly ineffective supporting organization such as the banking association and bank training services

Activities Planned For Next Quarter

- Finalize corporate social responsibility program with Zanaco
- Finalize and set time for leasing enabling environment assessment
- Conduct start of agricultural department technical assistance program with Zanaco
- Finalize vendor agreement and first three deals
- Conduct agent training for Farmnet to properly prepare and filter lease applications
- Continue to push banks deals for warehouse receipts
- Continue to support further integration of the banking sector services into ZAMACE via warehouse receipts, clearing house, and hedging mechanisms
- Provide follow up to First Alliance technical assistance program
- Continue to provide technical assistance and support to the m-banking initiative during commercial roll out
- Continue to scan outgrower structures and agricultural input networks for effective opportunities to deliver value chain finance
- Continue to assess opportunities for bond and equity market interventions to expand options for agricultural firms to access finance

Livestock Industry

Achievements

- There has been considerable progress in integrating the provision of livestock products and services into the agricultural inputs agent network
 - In Chongwe, Minelands has employed a vet to lead on the livestock product intervention.
 - In Mkushi, Landserve and Leloisa vet services co-trained 6 agents to start providing cattle sprayer services as one new component of the many services they will be offering
 - Croppack in the process of employing a vet to take lead on the livestock product range
- 6 smallholders paid for 114 cattle to receive Herd Health Plan (HHP) services resulting in over ZMK6.4m of new sales. An additional ZMK8.2m individual fees-for-service dipping and vaccinations sales were made, resulting in 5,685 animals accessing one-off services.
- Three new vets have initiated new HHP programmes in Southern Province
- Following the failure of the local vet to implement the HHP for communities in Chongwe, Agrivet has now successfully engaged the farmers with new contracts
- As PROFIT continues to link communities purchasing HHPs to commercial output markets, the construction of a sale yard started in Mumbwa to be utilized by a commercial feedlot for smallholder cattle buying.



Figure 1: HHP Sales Performance – project to Date

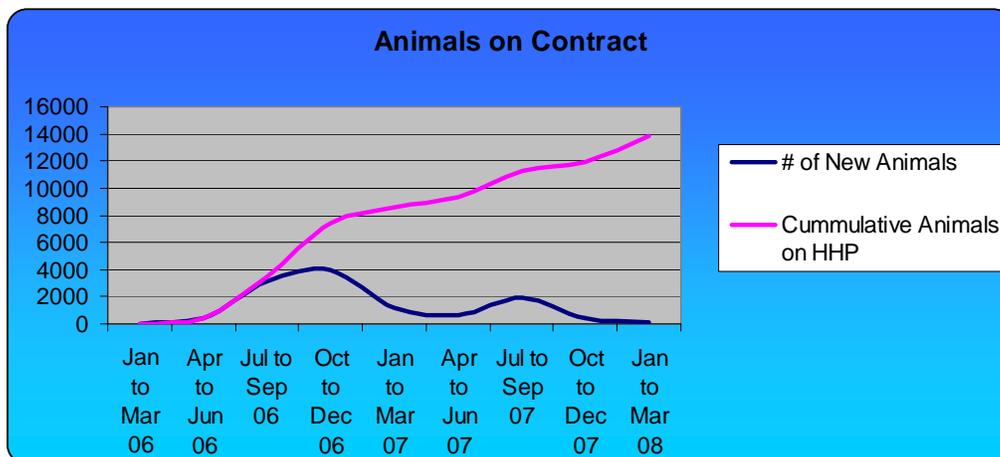


Figure 2: Animals on Contract - Project to date

- Progress was made over the quarter in the development of the private vet network:
 - First independent vet network organized by vets without PROFIT assistance was held on 8th March 2008
 - Vetlab has started offering cattle diagnostic services to vets on the network as well as farmers. Test now available are bacteriology, serology, fecal flotation and parasitology.
- PROFIT was active during the quarter addressing issues around the relationship between the private and public sectors in the veterinary industry:
 - PROFIT engaged a consultant on policy and regulation who was attached to the Ministry of Agriculture and Cooperatives - Livestock Development and Production Department for three weeks to define a new facilitation rather than implementation role for government in relation to veterinary activities
 - The consultant facilitated a workshop on policy and regulation oversight role of the government, which was held on 14th February 2007. The event was attended by top management of the MACO Livestock Development and Production Department and resulted in the formation of a PROFIT-MACO working group which comprises two PROFIT employees and four top government management employees with a mandate to operationalise the policy recommendations of the workshop.
 - First working group meeting held on Friday 4th April 2008
 - PROFIT continued its consultancy to assist the veterinary industry to advocate for a revision to the Pharmaceutical Regulatory Authority Act.

Challenges

- PROFIT's young vet internship programme continues to be constrained by graduates seeking employment with government or non-related service industries
- The case of the government vet in Chongwe leaving private practice demonstrates the fragility of combining public and private roles
- The private vet network still needs PROFIT support in terms of meeting facilitation and organization, and are finding it difficult to wean off financial support
- The private vet industry has been very slow to respond to the crisis triggered by the Pharmaceuticals Act. The lawyer completed his work in January but there has been no response from the industry

Activities Planned for Next Quarter

- A cattle show for smallholders is to be held at a commercial cattle farm in Chongwe, and PROFIT will also work on rolling out local livestock shows in Chongwe
- PROFIT will continue to work on the supply problem by integrating cattle sprayer services and de-worming through the ag-input agents, while still assisting vets to promote HHPs in existing and new areas. The programme will facilitate the training of agricultural input agents to offer spraying services
- Work with vets and interested ag- input firms to select and interview new interns.
- Continue facilitating advocacy on the PRA Act draft for vets
- Work on facilitating sales through the Mumbwa sale yard.
- Work with the PROFIT- MACO working group to role out regional workshops on policy and regulation by MACO HQ
- Work on extending HHP program to Sesheke, Itezhi-tehzi and Chibombo

Agricultural Input Industry

Achievements:

- Spraying services are growing and are now seen by commercial input providers as a key broad-base adoption platform for important technologies such as herbicides, demonstrating that a paradigm shift from product to service platform is taking place which will ensure scalability
- 70 new sprayer service agents were trained
- 36 in-community promotions conducted with PROFIT support.
- 40 in-community promotions conducted without PROFIT support
- Over 3,100 smallholders attended in-community promotions comprising of 1,973 males and 1,128 females (64% and 36.4% respectively).
- Sales of ZMK 185.3m in ag-inputs and services of which ZMK 159.2m was through the agent network
- 2,927 smallholders have purchased inputs over the quarter
- 2,290 smallholders have purchased improved technology services during the quarter (tillage, spraying, weeding, pest management, etc)
- 81 communities across the country are now served by more than one active agent
- PROFIT initiated agent network management and strategic planning meetings with all its clients, including sales reviews and forecasting, to help improve the internal capacity to strategically market to the smallholders. Resulting from this series of meetings, ag-input firms are expanding into new areas:
 - Pannar: North Western and Eastern Provinces
 - Croppack: Western and Southern Provinces
 - Minelands: Copperbelt and Central Provinces
- During the quarter, two new Ag-Inputs firm have requested PROFIT's assistance. ATS and MANA Agrochemicals both intend to start targeting the smallholder market via the community agent business model.

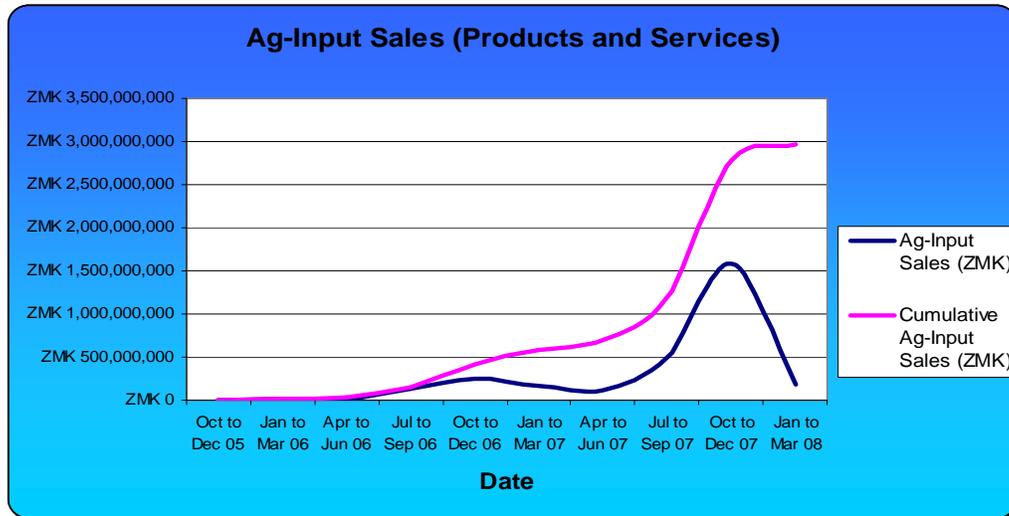


Figure 3: Ag Input Sales

Challenges:

- General retail management skills and capacity continues to limit pace of scale up
- The pre-payment model still poses challenges to some retailers who would prefer consignment arrangements
- Failure or inability by some retail companies to sell complete or promotional messages that should help farmers see them as solution providers.

Activities Planned for next quarter:

- Continue interaction with companies in the ongoing bid to improve management capacity through:
 - Review meetings
 - Efforts to internalize the agent selection and training process
 - Training the trainer-of-trainers internal to the retail companies.
- Integrate the vet and ag- input activities in the bid to facilitate the provision of complete farming solutions by companies
- Continue facilitating the strategic planning meeting with companies in the bid of improving their capacities
- Help facilitate post-harvest promotions for bundled services, and tillage and spraying services.
- Facilitate the companies to tap into the cultural events as a 'fast-track' means for the companies to reach out the smallholder market.
- Facilitation of the chemical agricultural input industry forum at which industry standards for spraying will be discussed
- Facilitate incentive structures to allow continued PROFIT support to those companies that have demonstrated commitment and investment in engaging the smallholder market
- Facilitate early engagement of the service provision in both ox and mechanized tillage services

Dairy Industry

Achievements

- All three dairy field advisors fully operational in Southern Province, Greater Lusaka and Copperbelt.
- A total of 21 training meetings/ presentations were made by various private sector companies promoting their products and services to dairy farmers in a variety of field locations
- Above training sessions were attended by a total of 498 dairy farmers
- Significant effort has been made at getting vets interested in offering a herd health programme to dairy farmers. Several meetings were arranged by Agrivet to present a dairy herd health program to farmers in the greater Lusaka area
- Four new vets were identified in both Copperbelt and Southern Province who began introducing the health herd to dairy communities in those regions for the first time
- The Mpima dairy group near Kabwe have signed onto the herd health plan on offer through a vet operating in Mkushi.
- Parmalat has made considerable advances in the last quarter in engaging with smallholder farmers in particular in Kabwe where they have agreed to open milk collection depot on April 1st Likewise in Copperbelt they have contracted with the Luanshya dairy group to collect their milk from the new milk collection centre due to become operational in the next quarter.
- ZamMilk have become more receptive to the strategy of increased collaboration with smallholder farmers and have for the first time placed their own physical infrastructure (1,000 litre milk cooling tank) in the field in an attempt to attract smallholder milk in the Chisamba area.
- Tiger Feeds and Agrivet have commenced discussions on a joint collaboration to produce a dairy information booklet for clients and prospective customers. The booklet will cover health and nutrition.
- Yielding Tree Feeds (Lusaka) and Olympic Milling (Ndola) have will commence dairy training of their stockfeed sales reps and agents in the next quarter.
- STTA's on the increased adoption of forage use, on trends/ modalities of transitioning beef animals to dairy animals and on census and baseline survey all commenced in this quarter
- Vetlab are moving toward expanding their laboratory facility to accommodate the testing of raw milk and milk products. This is seen as a positive step for the industry in providing an Independent Laboratory accessible by both farmers and processors.
- The Zambia Bureau of Standards in partnership with the Zambia Dairy Processors Association (ZDPA) are taking the lead in sensitising the dairy industry in the newly harmonised regional Grades and Standards.
- A training program has been set up by a private company to help establish process laboratories within dairy processors' establishments. Those with existing laboratories will have current methods reviewed and any short falls in these analyses rectified.
- Staal farms, near Kabwe, were assisted in the decision-making process of whether to stay in their small scale, marginally economical processing business or withdraw from processing and supply raw milk to the larger processors. Their core business is now the supply of raw product, which is more manageable and cost effective.
- Galaunia Farms received technical support in upgrading their processing plant with new equipment and product supply lines. This will improve the current operations efficiencies and product quality allowing the company to compete more competitively in the market place.
- Dairy King (small processor) has invested heavily in both equipment and plant. These improvements have seen this relatively small processor leap from an average daily production of 1,300 litres per day to 2,500 litres per day. Product quality has improved with sales to match. Work continues with the small scale farmers that supply the plant to increase both quality and quantity.

Challenges

- Convincing private feed and veterinary companies that although dairy only contributes about 10 % to their turnover that it is worth investing considerable additional time and effort to increase this contribution to turnover.
- Convincing milk processing companies that they must invest significant additional time and resources in engaging directly with the small commercial farmers if they are to increase milk purchases from this sector as a result of increased productivity.
- Convincing small holder farmers that the adoption of relatively inexpensive inputs such as improved health care and feed supplements / forage can have significant impacts on yield and overall animal productivity.
- Convincing milk processors that quality and quality control is an issue, and that for the industry to survive processors must invest both time and resources to ensure they are in a competitive position when COMESA is opened up as a free trade zone.
- Both processors and farmers are slow in up taking new technologies / techniques which delays progress in the program implementation.

Activities Planned for next quarter

- At least two feed companies will begin to hold regular training sessions for their field staff and agents specifically aimed at increasing product knowledge and capacity to increase sales of dairy products
- Continue to work on introduction of herd health with as many vets as possible in the hope of maximum uptake by new dairy farmer clients
- Begin specific promotions on use of increased of forage in the dry season
- STTA on the movement of milk into the informal market and how an understanding of this can help create a strategy to formalise it.
- Appointment of subsidised extension staff into Parmalat which will help increase their outreach to small holder farmers
- Increased collaboration with Parmalat , ZamMilk and any other willing processors to increase their contact with farmer clients
- ZABS Grades and Standards meeting with processors (22nd April) This will be followed up with in-house training to interested processors in GMP (Good Manufacturing Practices) and the establishing of a Food Safety Program.
- Continue to work with processors and private sector in the establishment of processing laboratories within processing plants.
- Establish posters and flyers with concise information for the distribution through both Milk Collection Centres and farmer communities
- Continue work with Vetlab in the establishment of an independent testing laboratory
- Assess the feasibility of establishing mobile collection centres, trailer type tank systems which will address both the cooling and transportation issues currently experienced within the industry.
- Establish and launch a Dairy Industry Facilitation Fund

Sustainable Natural Resource Management and Environment

Achievements

- The processing equipment designed and fabricated by Forest Fruits under the PROFIT grant has proved to be a great success. The grading equipment has ensured a higher quality of product and a 10% improvement in extraction rates. The wax processing machinery has led to a higher quality wax, which has attracted a 20% higher export price than in previous years.
- Forest Fruits completed the 2007-8 honey season with total purchases of 280t, bought from 4,500 beekeepers, with a farm gate value of ZMK840m. From this raw honey volume, 5 tons of wax was also processed for export.
- All hundred hives purchased under the PROFIT grant to Forest Fruits are now in the field, in a combination of concentrated apiary sites and individual sites.
- The 60 hives distributed by North Western Bee Products to its highest performing growers through the revolving fund facilitated by PROFIT are now occupied, and the beekeepers expect to be able to pay off their loans through the course of the year
- 150 new beekeepers were trained in production and quality issues by the PROFIT-supported supply chain manager with Lyunda Enterprises
- Kalahari Natural Oils, through the PROFIT grant, began training of Mungongo nut producers in Western Province with a view to commence collection during the next quarter. A botanist was engaged to conduct the ecological study of the company's catchment area, and the application for organic certification was completed and submitted
- The PROFIT team working alongside African Parks in and around the ecologically sensitive Liuwa Plains National Park have been working closely with the community campsite committees to build from the lessons from the previous quarter (the peak tourist season) in terms of improving the 'value added' tourist products (fishing, canoeing, traditional dancing, crafts etc) and reinvesting income into infrastructure improvements (solar pumps, wells etc)
- The livestock development programme in the Liuwa Plains area continues, with the commercial vet in the area investing in agents and community livestock workers to promote and sell both one-off services and the herd health plans, and the vet is also responding to slower sales by reducing prices.

Challenges

- Financial sector conservatism and risk aversion has ruled out the commercial financing of Lyunda Enterprises and delays with MATEP financing prevented their participation in the 2007/8 marketing season. Export orders were not met, and PROFIT's continued investment in extension and supply chain development is increasingly called into question.
- Donor distortion in honey purchasing efforts has negatively affected Forest Fruits' ability to create a stable marketing environment for the beekeepers affiliated to the company.
- Lack of dedicated management from Forest Fruits and insufficient training for beekeepers in the more intensive management required to maintain top bar hives has meant a poor occupation rate and very low production potential.
- Various management and financial constraints have led to the virtual collapse of North Western Bee Products. However, the North Western Beekeepers Association, the majority shareholder in NWBP is still functioning and the revolving fund and its management will be transferred to that entity.
- Work in the Liuwa Plain area has been hindered by major flooding. There has also been a slow down in the adoption of commercial vet services due to cash flow constraints facing farmers in the area during the rainy season.

Activities Planned For Next Quarter

- Transfer in-house technical support from Lyunda Enterprises to Forest Fruits to ensure the success of PROFIT's initial investment in the top bar hive technology adoption process.
- Work with Forest Fruits to develop a Preferred Supplier Network through which to channel the top bar hives as part of an incentive package to improve the productivity of the higher performing beekeepers.
- Through the PROFIT financial sector component, assist Forest Fruits to source the long term financing required to develop the business to a sustainable level of profitability based on high volumes of retailed product, sourced from a large number of beekeeping areas across the country.
- Ensure the smooth transition of the revolving fund for top bar hive distribution from North Western Bee Products to the Beekeepers Association
- Kalahari Natural Oils will continue training producers, and will start to purchase crop during the next quarter.
- During the course of the next quarter, African Parks and PROFIT, in conjunction with local traditional leaders and communities will commence work on a major land use survey and planning exercise with the intention of defining areas of expanded economic activity and wildlife conservation to minimize conflict and maximize to both sectors

Non Policy Enabling Environment

PROFIT conducts the majority of its work in this area through three major grantees, and over the quarter, PROFIT has seen large gains in the use of the two PROFIT-supported private sector vehicles to foster improvements in the non-policy enabling environment

- **Zambia National Farmers Union:** The more focused and reduced grant to the ZNFU has started to pay dividends. Significant steps were taken over the quarter to enhance the ZNFU4455 SMS trade information system, by adding new commodities and researching, in conjunction with MSU FSRP, the requirements for adding a fresh vegetable component providing live pricing information from Zambia's largest informal markets. Further research continued into adding input price information into the system, as well as transport bids and offers. Since its inception, the system has had over 63,000 combined SMS and website 'hits'. Results from a Usage and Attitude study finalized in early in the quarter shows that the SMS system is being used by the intended target groups (61% used by smallholder farmers, 5% by commercial farmers and 20% by local traders).
- **Zambia Agricultural Commodities Exchange:** Despite the fact that the first quarter of the year is traditionally a quiet time for commodity trading, some significant progress was made:
 - During the quarter, 11,000 tons of commodity (the majority being wheat) worth \$4.3m was traded across the ZAMACE floor, bringing the total trades since September to 15,700t of commodity valued at \$6.35m.
 - ZAMACE hosted a successful visit by Chris Sturgess, the Assistant General Manager of SAFEX, who visited commercial, government and financial institutions to provide insights on commodity trading systems and the benefits to all parties
 - A brokers training course and exam were held during the quarter during which the ZAMACE brokers were accredited by the Securities and Exchange Commission.
 - The uncertainty regarding the management transition came to an end with the engagement of a senior manager with significant experience in financial markets.
 - A seminar was held by ZAMACE and PROFIT towards the end of the quarter focused on promoting the use of the warehouse receipt in commodity financing. It was well attended

- by the financial sector and some promising leads resulting from the event are being followed.
- The negotiations by ZAMACE and PROFIT to engage the World Food Programme in trading on ZAMACE proved to be successful with the announcement that the WFP will procure at least 2,000t of commodity through ZAMACE this year
- **Vetlab:** Vetlab continues to grow providing new services to dairy, cattle, and public health clients. Additional progress includes:
 - Vetlab continues to play a vital role in the vet services industry by improving diagnosis and the time between diagnosis and treatment
 - Vetlab continues to take the lead in organizing the vet network and fostering its formalization
 - New sales from dairy and cattle clients have increased growth faster than planned
 - Vetlab is beginning to link directly to smallholders via promotional events
 - Vetlab has established itself as an important technical resource for private vets through its work with the vet network and training services it has provided to a range of vets.

HIV/AIDS

Achievements

Afya Mzuri

- Conducted a needs assessment in Central Province (Mumbwa, Mkushi and Serenje) and met with some of the peer educators and focal persons trained by the previous implementing partner, as well as community leaders and PROFIT field staff;
- Worked with the consultant from Emerging Markets Group (EMG) and prepared a revised workplan and budget which is feasible within the available funding, as well as an ideal workplan and budget, which has been presented to PROFIT and USAID; and
- Conducted a follow-up visit to Chama in order to conduct mapping of the district and identify peer educators and focal point persons within communities, lead firms and service providers for training during the next quarter.

Land O'Lakes

- Ongoing meetings with selected retail and institutional customers for informing, buy-in, advice on products and packaging.
- Product design criteria for 3 different enriched foods were developed based on nutrition science and NGO/PVO analysis of needs; consensus with partners
- Development of Marketing plans including publications, media and other education and promotion activities ongoing during all project phases
- Test runs of experimental formulas for the 3 nutritional products were carried out 1 and performance of processes, machinery and packaging are validated
- Product review and validation conducted through consumer testing, product prototypes evaluation by retail trade and food aid nutrition experts (e.g., FANTA, FFP, USAID/Zambia, universities, consultants)
- Sunrise Biscuits has secured an order from Project Concern International for \$30,000. These will be provided as a dietary supplement to 5,000 PLWHA. The Sunrise marketing and selling strategy was analyzed.
- Luanshya Mines Hospital has begun the nutrition protocol with the first delivery of enriched biscuits. This is an initiative supported entirely by the Hospital and Sunrise to determine the value of a supplemental food being provided to patients showing signs of under-nutrition.

- Trade Kings is still making adjustments to their enriched Maheu process but it is 90% complete. Senior management has aggressively embraced the new product and has ordered both specialty shrink labeling equipment and new blow mold for an hour glass shaped plastic bottle.
- Parmalat has registered their brand “Lacto Live Mabisi”, has a finished and tested the final formula, and their marketing department is fully engaged for market launch scheduled for late June. The design of new label graphics and nutrition label is completed.

Challenges

- The distances and bad state of the roads in Chama District which results in long travelling times as well as high costs for programme implementation.
- Processor in-house HIV/AIDS programs for employees were not initiated in the first quarter due to establishment pressure under the program. All three processors were asked about having a program and their openness to working on one with the project. They were open to this initiative and recognized the value.
- Sunrise Biscuits is confronted with serious business challenges that threaten the viability of the project initiatives to launch enriched sandwich biscuits.
- Project Spending Match with the biscuit manufacturers is significant due to the complete funding of activities by the processors themselves. However, collecting these match figures has proved difficult and troublesome and highlighted high investment levels to factory management.
- Some confusion over jurisdiction regarding approvals to manufacture and analysis certificates has been realized this quarter but resolution is in process.

Activities Planned for Next Quarter

- Peer education training in Chama, including development of activity plans;
- Follow-up visit to Mumbwa and Mkushi – in collaboration with PROFIT field staff, map the area and identify intervention zones based on PROFIT’s operational area;
- Meet with previously trained peer educators in Mumbwa and Mkushi and develop action plans for peer educators and focal point persons; and
- Supervisory visit to peer educators trained in Chama to collect monitoring reports and provide on-going technical support.
- Continue to resolve the regulatory and certification issues for the biscuit manufacturers

New Business Development

Achievements

- In PROFIT's efforts to investigate and support innovative models of smallholder or community involvement in, and ownership of commercial rural enterprise, three different case studies were investigated and technical support given during the quarter
 - PROFIT continued its support to the development of the Chanyanya Irrigation Scheme in Kafue District through the provision of technical assistance to the project development teams and the community. Despite the fact that funding constraints and the negative reaction of some of the communities involved in the 3,000ha original scheme have meant a significantly reduced area intended for commercial agriculture, the model remains essentially the same, and significant progress was made during the quarter to bring the final model to an advanced stage.
 - PROFIT investigated an innovative cattle production model in Masaiti District whereby a partnership would be developed between a commercial cattle company and a community that would contribute land in return for an equity and employment stake in the company.
 - Technical assistance was given to a proposed Trust in the Chiawa area of Kafue District that will manage a Conservation Area adjacent to the Lower Zambezi National Park. The trust is essentially a partnership between a number of commercial tourism enterprises and the Chiawa community, and dividends from the utilization of the conservation area will be returned to the community in the form of targeted grants and agricultural infrastructure (irrigation, wildlife fencing and poultry housing, for example), managed by the trust and leased to community members.

Project Administration

Achievements

- The new Chief of Party joined the project by the middle of March 2008
- New Quarterly Reporting Format developed for draft submission Q2 2008
- Harmonized STTA concurrence and request format introduced across all sub-grantees
- Land O' Lakes sub-grant senior advisor placed within PROFIT office complex
- Field Staff annual performance appraisal and contracts reviewed for new signings during Q3 2008.
- New bonus incentive scheme implemented for field staff
- Staff Benefits reviewed for inclusion into new signings
- Improved responsiveness program from field and CLUSA head office initiated during Q2.
- Initiated a "telling the story better" program within the technical team
- Began the process of refining the M&E system along the lines of Most Significant Change in order to better utilize M&E as a feedback as well as a monitoring system.
- Begun implementing strategy on reducing vehicle maintenance costs.

Challenges

- Continued upgrading of staff at Lusaka and up country positions in response to private sector demand for opportunities to scale up service provision. Staff needs to constantly be aware of the changing needs and opportunities of clients.
- Improving the financial reporting response time for grantees such that more real time financial positions may be determined for the whole project.

Activities Planned For Next Quarter

- Quarterly training meeting planned to continue to reinforce skills in the field and management staff in application as well as observation and feedback.