



USAID
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SECOND QUARTERLY REPORT FY2007

April 2007

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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	\$5,564,000
Appropriation	72 – 19X1030
BPC	GGAX-05-21611-1G13
Outlays this Quarter	\$996,134
Total Outlays to date	\$4,859,866
Uobligated balance of Federal Funds	\$12,689,964
Obligated balance of Federal Funds	\$2,204,134

PROFIT INDICATORS ANNUAL 2006		BASELINE	FY 06		FY 07	
			TARGET	ACTUAL ANNUAL	ACTUAL 2nd qtr	
Trade/Exports related indicators						
1	Volume and value of purchases from smallholders of targeted commodities (domestic agricultural trade)	\$46,870,313	\$49,213,829	\$77,495,553.51	60,000,398	
Production/Sales/Value Addition related indicators						
2	Value of Food and non Food Agricultural production by USAID supported groups.	\$5,523,455	\$5,797,833	\$11,002,408.04	7,551,614	
3	Value of sales of goods and services	\$5,397,833	\$5,667,725	\$11,045,421.32	7,558,757	
4	Value of resources derived from sustainable natural resources or conservation initiatives.	\$714,978	\$786,476	\$2,083,140	\$841,076	
5	Value of production per unit disaggregated by commodity sector.	Cotton	\$163	\$175	\$133.42	\$118.35
		Honey	\$4.44	\$4.66	\$5.20	\$4.05
		Red meat	\$116	\$122	\$207.60	\$215.19
		Horticulture	\$785	\$824	\$1,100.42	\$1,100.42
6	Value of production per client	Cotton	\$192	\$202	\$189.00	\$189.00
		Honey	\$35	\$37	\$49.05	\$38.39
		Red meat	\$94	\$99	\$194.23	\$194.23
		Horticulture	\$628	\$659	\$836.00	\$836.00
7	Gross Margin per unit	Cotton	\$10	\$10.50	(\$18.58)	(\$33.65)
		Honey	\$2.44	\$2.56	\$3.20	\$2.05
		Red meat	\$7.11	\$7.82	\$98.71	\$68.89
		Horticulture	\$547	\$574	\$862	\$862
8	Volume of produce processed (t)	Cotton	19,200	20,160	22,238.00	22,238
		Honey	347	364	415	517
		Red meat	0	128	155	178
		Horticulture	0	500	441.92	585.52
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	4900	4,900.00
		Vet contract/herd management	0	500	538	1023
		Contract production	37,500	50,000	37,628.00	50,162.00
		Improved honey production	0	100	20	20
		Input products and services	10,000	40,000	19,140.00	23,714.80
10	Area under improved technologies.	Conservation farming (ha)	3,200	10,000	4,900.00	4,900.00
		Vet contract/herd management (hd)	0	5,000	2,340.00	4,590.00

PROFIT INDICATORS ANNUAL 2006			BASELINE	FY 06		FY 07
				TARGET	ACTUAL ANNUAL	ACTUAL 2nd qtr
		Contract production (ha)	32,000	45,000	49,000.00	50,162.00
		Improved honey production (hives)	0	200	40	40
		Input products and services (ha)	10,000	40,000	11,667.00	13,528
11	Improved technology adoption rate.	Conservation farming	10%	12%	14.00%	7.78%
		Vet contract/herd management	0%	25%	26.00%	12.30%
		Contract production	25%	21%	40.00%	62.86%
		Improved honey production	0%	5%	0.36%	16.67%
		Input products and services	10%	12%	34.80%	34.80%
12	Number of hectares under biodiversity conservation.		3,200	10,000	4900	4,900
13	Number of hectares under managed natural resource production systems		0	0	0	0
Finance related Indicators						
14	Value of finance/capital accessed by USAID assisted groups (borrowers)?		\$1,845,045	\$2,500,000	\$2,620,322.62	\$3,438,438
15	Number of loans by USAID assisted institutions disaggregated by gender		32,000	45,000	54,513	55,400
16	Percentage of the number of loans on schedule for repayment		90%	90%	90%	60%
17	Value of loans by USAID assisted institutions disaggregated by gender (lenders)?		\$1,845,045	\$2,500,000	\$2,620,322.62	\$3,438,438
18	Percentage of the value of the lending portfolio on schedule for repayment		90%	90%	90%	60%
BDS related indicators						
19	Number of clients/ entrepreneurs receiving BDS disaggregated by category e.g smallholder farmers, agribusiness firms	Small holder	37,500	40,000	57,965.00	65,000.00
		Agribusiness	2	50	33	150
20	Number of farmers reached with extension/outreach services		37,500	40,000	57,965.00	60,271.00
21	Number of people reached with HIV/AIDS A & B outreach programmes		0	150,000	157,312.00	157,312.00
Policy related indicators						
22	Number of policy areas worked on or affected if any		0	0	0	0
23	Policy progress milestones – Analysis, debate, submission, approval and implementation		0	0	0	0
Training related indicators (disaggregate by gender)						

PROFIT INDICATORS ANNUAL 2006			BASELINE	FY 06		FY 07
				TARGET	ACTUAL ANNUAL	ACTUAL 2nd qtr
24	Number of people trained in	Agricultural production	32,000	40,000	41,513.00	48,000.00
		Private sector growth	40,000	50,000	41,470.00	53,700.00
		Nat. Resource Mgmt and Conservation	5,500	5,500	5,500.00	5,700.00

Highlighted indicators have not been updated this quarter as they are updated annually based on results of harvest. PROFIT will conduct a full review of its monitoring process over the next quarter as a new Monitoring and Evaluation Specialist will start in April of 2007.

USAID Operating Plan Indicators		
2.2 Trade and Investment Capacity	FY 07 Target	FY 07 2 nd Quarter
1. Number of events held that provided training on topics related to improving the trade and investment capacity building	500	80
2. Total value of exports in targeted sectors in which firms are receiving USG assistance to increase their exports	\$4,200,762	0
3.2 Financial Services		
1. Number of financial sector professionals trained in international standards	60	55
5.2 Private Sector Productivity		
1. Number of firms with improved management practices as a result of USG assistance	191,750	65,000
2. Number of firms investing in improved technology as a result of USG assistance (SD)	101,750	65,000
6.2 Agricultural Sector Productivity		
1. Number of additional hectares under improved technologies or management practices as a result of USG assistance	185,000	60,000
2. Number of rural households benefiting directly from USG interventions	100,000	
3. Number of agriculture-related firms benefiting directly from interventions as a result of USG assistance	200	65,000
7.3 Strengthen Micro-Enterprise Productivity		
1. Micro enterprises served by USG-assisted business development service providers	50,000	150
2. Number of clients of USG-supported micro enterprise business development service providers linked to larger-scale firms as a result of those services	30,000	
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	25,750	52,000

QUARTERLY SUMMARY

Overview

The second quarter of FY 07 saw the solidifying and scaling up of the shift from the majority of PROFIT efforts focused on community related activities to activities related to enterprise/industry upgrading. Through a combination of staff training and targeted enterprise interventions PROFIT has begun to work more closely with enterprises that have shown their interest and commitment to smallholders. The shift includes three components. The first is an on-going process of staff upgrading to maximize PROFIT's capacity to engage vets, retailers, and lead firms. The second is an increase in efforts with larger outgrowers to assist them in upgrading their management via a range of third party services and innovative internal management practices. The third is an increased focus on improving the ability of vets and input providers to manage and scale up their business with smallholder clientele. From initial indications the shift is already producing results with lead firms integrating third party service providers into their outgrower schemes, and vets and input retailers expanding their smallholder client base.

PROFIT has moved substantially on improving access to support services that target ag-input retailers, vets, and lead firms to help them deal with the high transaction costs of marketing to/managing smallholders. Specifically, PROFIT has launched three ICT services piloting these enterprise groups, including an innovative m-payment and outgrower management model for larger outgrowers. The other two pilots focus on improving the relationships and information flows between input providers and smallholder via cell phone technology.

During the quarter PROFIT launched its more intensive financial facilitation strategy with five initiatives. The first was designing of a training product development effort with the Zambian Institute of Banking and Financial Services (ZIBFS). The second was designing a specialized technical assistance program for individual banks. Both of these efforts will be fully operational in the next quarter. In the third effort PROFIT has been working to link leasing agents to equipment sales to ease the burden of sourcing finance for potential service providers. The fourth effort was the design of a value chain financing effort with a honey lead firm based on PROFIT's previous value chain financing pilots. The PROFIT worked with insurance firms and smallholder cattle owners to determine an effective insurance product in terms of price and risk assurances. PROFIT is facilitating negotiations between insurance firms and smallholders and expects some initial deals in the next quarter.

Overall performance project performance remains strong with continued sales growth for input products and services, increases in the number of lead firms wanting to establish out grower schemes, and a growing integration of third party input service providers in to commercial outgrower schemes. While not smooth, there are a number of trends that indicate a strengthening of the competitiveness of Zambia's agricultural industries, including:

- Growing number of new commercial relationships with smallholders,
- Restructuring of outgrower models to increase efficiency and effectiveness,
- Increasing breadth and depth of input markets, and
- Increasing commitment from key market actors such as ZNFU to bolster confidence in market mechanisms via market information, mediation, and market assurance certifications.

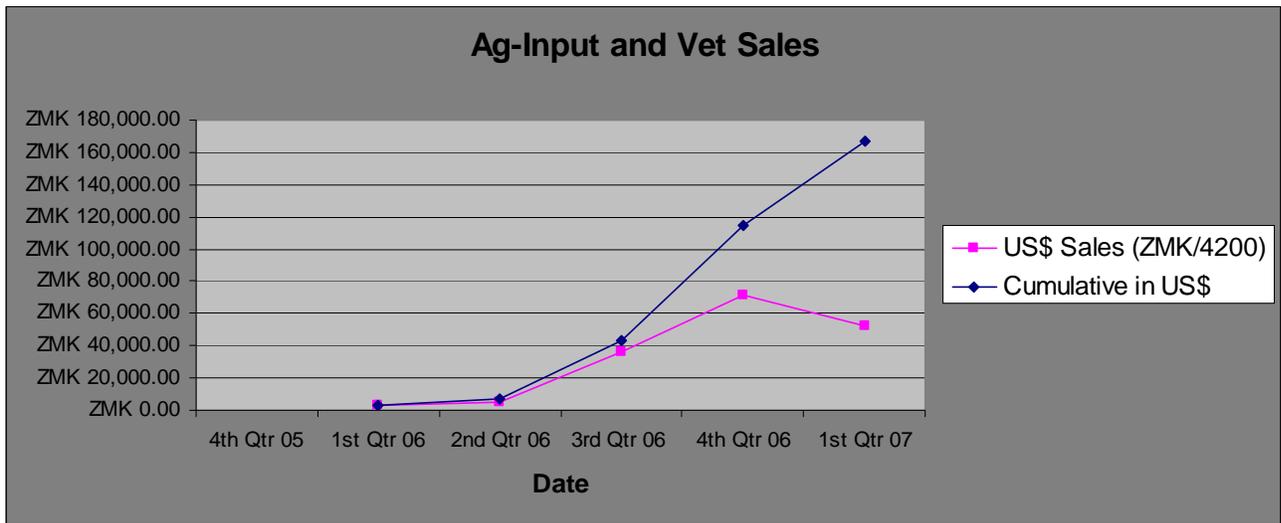
Of particular note is the work with the cotton industry that has grown very quickly during the quarter. With PROFIT third party spraying service pilots moving out of the pilot stage to broader implementation cotton companies are keen to test tillage and possibly even third party provision of inputs as a means to reduce their burden and to spread out the industry's risk to key input markets. Included in this evolution is the willingness of cotton companies to test new technologies to manage their outgrower schemes. Via a combination of cell phone, database, and web technologies, PROFIT is also fostering the emergence of a range of commercially grounded solutions to reduce transaction costs and increase the ability of cotton firms to effectively manage their resources to the benefit of the industry inclusive of smallholders.

Four Innovations Grant awardees started implementing during the quarter. Two of the awardees were ICT pilots mentioned above that have already established and are testing customized SMS marketing systems for ag input clients. The vet lab grant has already set-up the equipment and is in the process of training staff for an informal launch in mid-April with an official launch in early May or June. The fourth grantee, Kalahari Oils, is finalizing its first year's workplan.

Achievements

- Increased sales of ag-inputs and vet services to smallholders (see graph below)
- Increased numbers of animals on all vet service contracts and increase sales of prophylactic drugs/services to smallholders not on contract
- Established guidelines for a young vet program to expand vet businesses into secondary markets
- Additional input retailers taking on the agent business model
- Spraying services growing and seen by commercial input providers as a key to broad-based adoption of important technologies such as herbicides
- Continued adoption by lead firms of more effective outgrower business models,
- Staff development continued to progress with regional trainings conducted during the quarter
- Four Innovations Grant Program awardees signed agreements early in the quarter and started implementation
- Financial strategy underway with progress in developing local capacity to design and deliver training and initial design of bank TA program
- ICT strategy is also underway with three pilots in progress and commercial firms buying into the m-payment pilot

- The PROFIT intervention strategy highlighted at a USAID sponsored workshop in Cambodia



Challenges

- The Kwacha appreciation and resulting pricing disputes in the cotton sector continues to reverberate with lower than expected production of cotton, which has created an opportunity for pirate buying to increase substantially
- Donor and government distortionary activities, expectation management, trust issues between market players, and inexperience in dealing with a smallholder market have remained and limit the pace at which the private sector can take on PROFIT initiatives and drive them to scale.
- Pre-PROFIT management issues have re-emerged creating a distraction among management and staff.

PROGRAM MANAGEMENT AND ADMINISTRATION

Overview

PROFIT-USAID finalized its administrative and management team this quarter with the addition of a new M&E officer and the arrival of Jemeh Egwuagu as the project's Finance and Grants Manager.

This quarter also witnessed a strategic reshuffling of various field personal as the project filled the gap left by the release of IDE from their contractual obligations. Furthermore in light of the volume of activities planned for the Copperbelt region, a new field manager was placed in that region. The business advisor who will be assisting ZNFU was also brought on board and has started assessing the ability of the targeted ZNFU district farmers associations to carry out the activities that will be needed under the proposed input and output marketing activities.

The new Finance and Grants Manager has started working very closely with our grantees in order to upgrade the accuracy and timeliness of their financial reporting.

Achievements

- As noted above in the overview, our Finance and Grants Manager is now in country and has started working very closely with our grantees.
- The grant with ZNFU has been finalized and work will start in earnest this quarter.
- Two proposals under the dairy initiative made it to the final competitive stage and are undergoing a final evaluation.
- The new board members for the ZACA grant were hired and are now in place.
- Three out of four legal issues have been favorably resolved. It is envisioned that the fourth will soon be resolved in a satisfactory manner by the end of this quarter.
- The grant for Kalahari Oils was also finalized and signed this quarter.
- Several successful pr activities were managed and carried out including a visit from the US Ambassador to one of our corporate clients in Livingstone.
- From March 26th to March 30th Jemeh Egwuagu, the new Finance and Grants Manager and Moses Masese, Project Accountant, attended a course on USAID Compliance and Financial Management in Johannesburg, South Africa. The week long intensive focused on OMB compliance requirements for non-profit organizations receiving US Government funding as well as how organizations like CLUSA can institute tight controls in order to ensure proper financial management. This training was extremely insightful and Ms. Egwuagu and Mr. Masese have already begun to put the knowledge they gained from the training into practice. Ms. Egwuagu is also applying what she learned in the training to the management of the Grant Fund and PROFIT grantees. Ms. Egwuagu continues to train grantees on USAID financial and administrative requirements and is ensuring that all grantee financial reporting follows the principles, guidelines and rules laid out in 22 CFR 226, A-122 and A-133.

Challenges

- The lack of an effective M&E officer under the project greatly hampered data collection and collating for our reports.
- Lack of effective, accurate and timely reporting by several of our current grantees. It is hoped that these grantees under the guise of the new Finance and Grants Manager will improve the accuracy and timeliness of their reporting.
- Integrating the proposed activities under the dairy initiative into the current PROFIT-USAID operational philosophy and activities.

Activities Planned for Next Quarter

- Fully integrate the new M&E officer into our management and M&E systems.
- It is expected that a final proposal will be selected to manage and carry out the activities under the dairy initiative.
- Field work will continue with all new grantees. Activities will also commence with ZNFU and the dairy initiative. All field activities planned for each is located in an annex to this report.
- Finalize all employee evaluations and contracts.

INDUSTRY DEVELOPMENT

Market Development

LIVESTOCK/REDMEAT

Overview

The ability of vet businesses to scale up their businesses was the primary focus of the quarter. There were two main thrusts of PROFIT activities in this area. The first was to increase the capacity of vet businesses to stabilize and scale up their businesses. Activities in this area included direct technical assistance to vet businesses in strategic management focusing on shifting their businesses to include three lines of revenue (i.e., HHP, individual service sales, and drug sales). The foundation of the shift was community agent networks. The vet agents are similar to retail agents in that they are commission-based sales people that only bulk pre-paid orders. They are not qualified to deliver services like the community livestock workers (CLWs). PROFIT worked with vets to train 11 agents. The agents work hand in hand with CLWs and the vets to coordinate orders for products and services, and to push membership into the HHP.

The second main thrust was to establish a more direct link between young vets and the emerging private vet industry. PROFIT established a young vet program that will include a mechanism for vet businesses to utilize young vets as part of expansion effort into even more distant markets. Without a more identifiable and viable pathway from graduation to a career as a private vet, the supply of private vets will always be limited. By facilitating such a pathway PROFIT hopes to influence not only the way in which vets are trained to include more business theory, but also foster alternative low cost/low risk business expansion models that will allow private vets to expand into even more remote regions of Zambia.

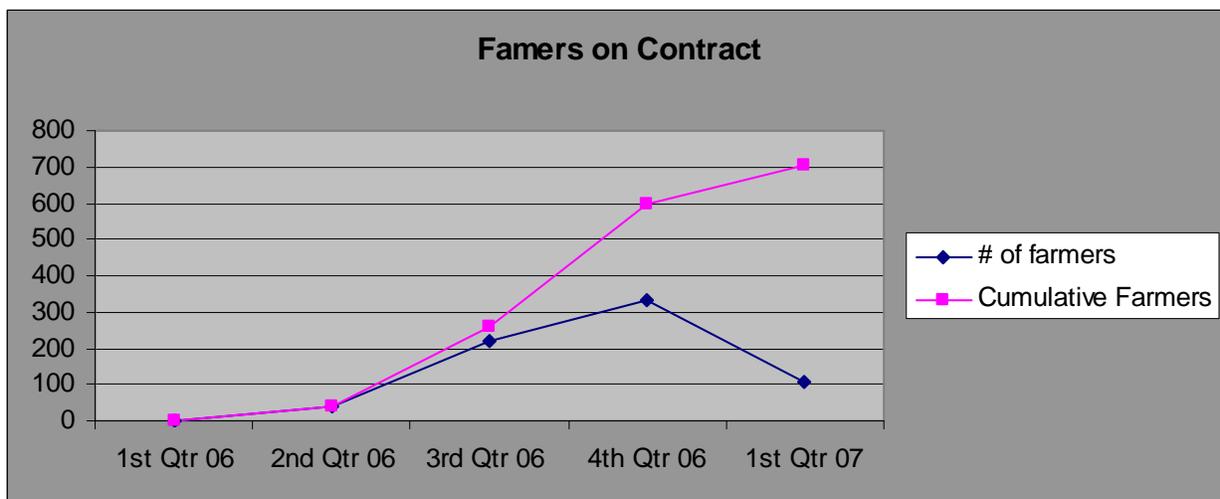
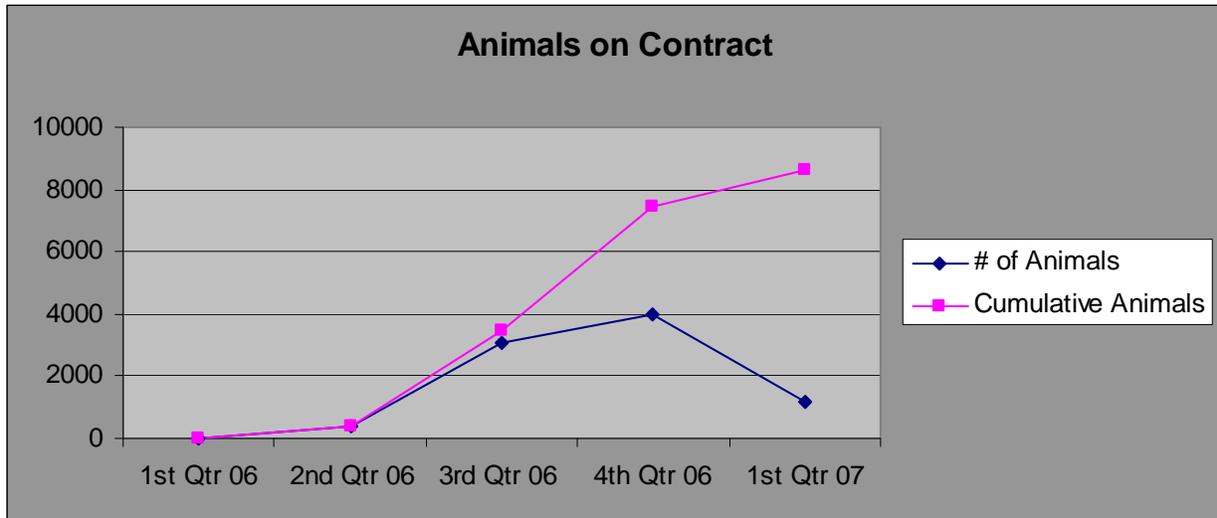
The figures for the quarter continue to prove the viability of a private vet market for smallholders and show the underlying shift. For this quarter alone another 107 smallholders placed 1188 animals on contracts resulting in over 26million ZMK new sales from contracts (see graphs below). An additional 189 smallholders purchased individual fee-for-service dipping and vaccinations to the value of over 20 million ZMK for their 4135 animals. Cumulatively, since the inception of PROFIT's efforts to facilitate private vet services, smallholders have paid over US\$139,842 to purchase preventative health services for their cattle.

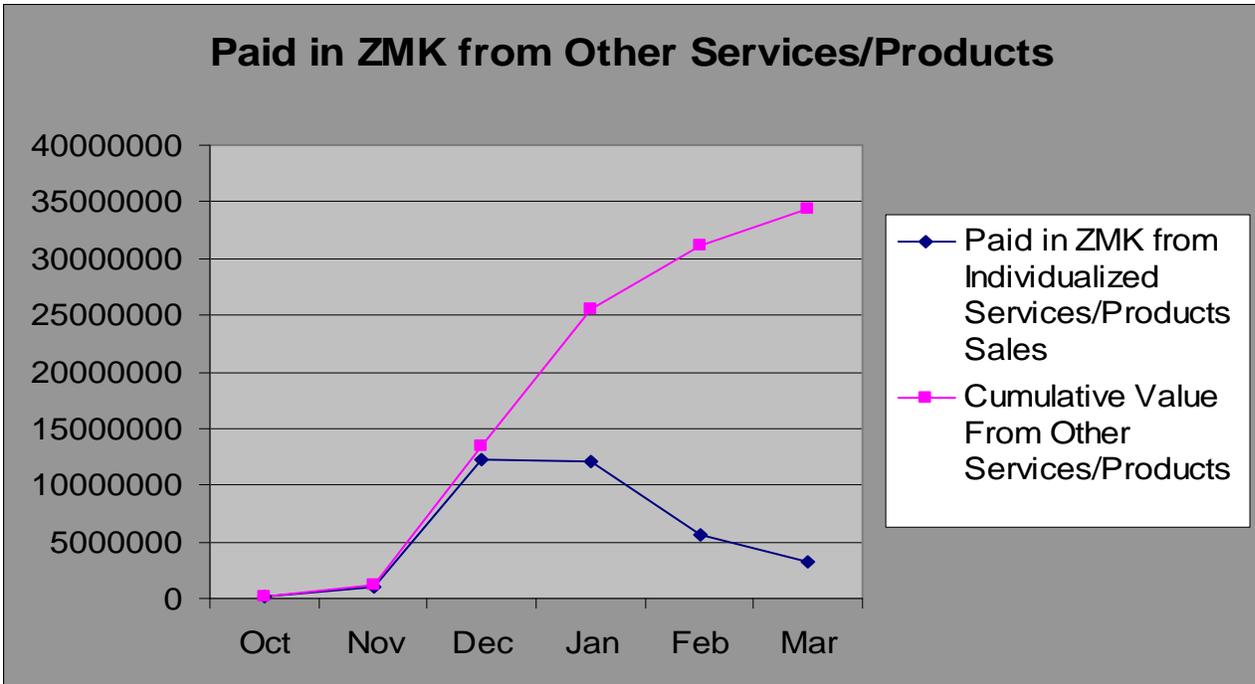
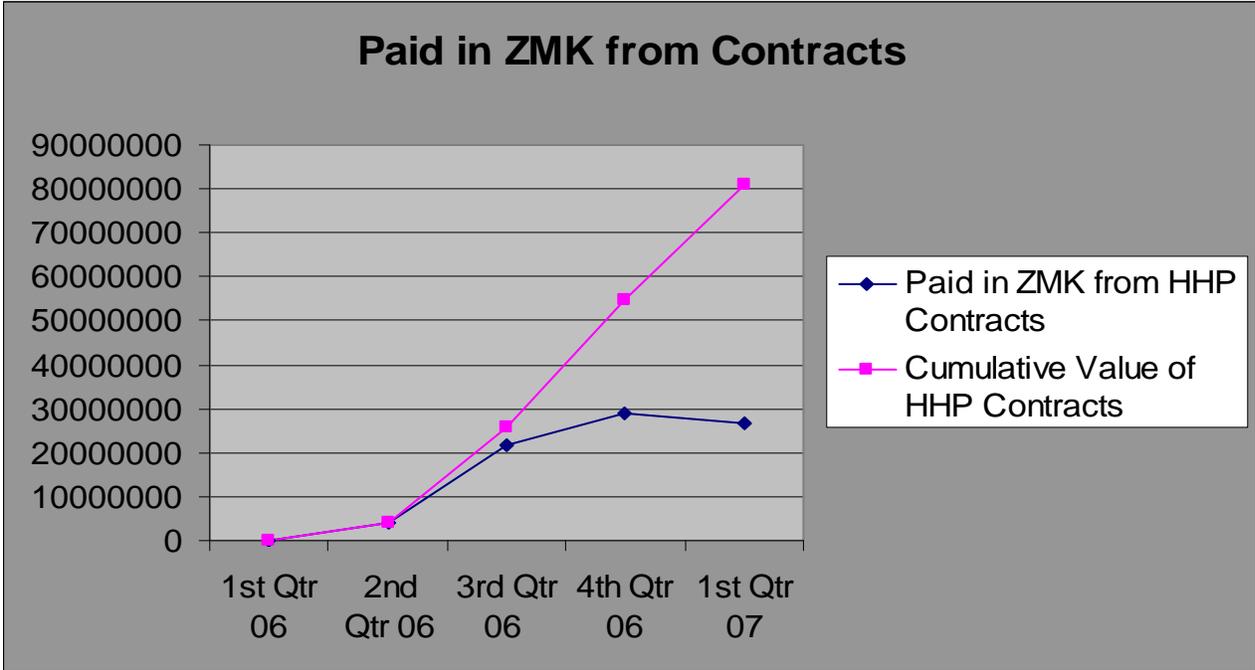
Livestock Achievements

Oct to Dec 06

- Sales of ZMK 47,454,400 from SHs
- Sales of ZMK 26,495,400 from HHP and ZMK 20,959,000 from other services/products
- 1188 new animals under contract
- 4135 animals receiving individualized services
- 10 CLWs certified
- 107 SHs placed animals under HHP
- Initiated young vet program with vet business and UNZA
- Vetlab established location, procured equipment, trained staff, and is delivering services on a test basis before launching officially in early May
- 6,600,000 in new infrastructure investments
- 11 formalized agreements between vets and CLWs

As the private vet industry continues to grow, it was critical that PROFIT facilitate close coordination with the Government of Zambia. The initial step in this process was to meet with the Office of the Director of Veterinary Services within the Ministry of Agriculture. The meeting went very well with the Deputy Director stating full support for the program. The Deputy Director has since visited a service offering and provided excellent re-enforcing guidance to the private vet she visited that he needs to make a profit to stay in business. The next step will be the participation of the Deputy Director and possibly the Director in the next vet network meeting scheduled for May 07.





Challenges

- The limited business acumen among vets remains a limitation on scaling up services
- Farmer cash flow and disregard of formal signed contracts continues to form the foundation of most disputes between farmers and vets.

- The lack of support services available to smallholders continues to limit their commercialization, and building these service markets from their very weak state is a slow process

Activities Planned for Next Quarter

- Work with vets to expand young vet program
- Work with recruitment firms to offer vet support services including temporary and head hunting services
- Continue working with vets to improve their business management capacity in order to quicken the pace of scaling up their business
- Continue to facilitate additional vets taking on the HHP services model as a means to target the smallholder market
- Assure shift to payment-before-signing policy on new contracts to bolster the importance and commitment needed when signing a contract
- Shift from PROFIT mediating to ZNFU mediating vet – farmer disputes
- Launch veterinary laboratory services
- Further integrate Ministry of Agriculture’s Vet office into vet network activities
- Continue to push adoption of CLW certification as a standard and formalization of CLW vet relationship through employment contracts
- Finalize construction of the two pilot infrastructure projects in Mazabuka and Mongu
- Facilitate contracts between abattoirs and communities on vets contracts for more than six months
- Facilitate the emergence of in-community finishing/fattening services via vet contracts
- Facilitate the emergence of AI services via vet contracts
- Facilitate the emergence of affordable cattle insurance for communities on vet contracts for more than six months
- Work with ZNFU to design trade fair activities that include auctions and private scale services

AGRICULTURAL INPUTS

Overview

PROFIT efforts during the quarter focused on pushing ag input suppliers to scale up their businesses, improve on-going agent network performance, and fully integrate service as a platform for sales.

Ag-Inputs Achievements

Oct to Dec 06

- Continued growth in the smallholder market
- 49 agents trained
- Sales of 173, 029,250 ZMK in ag-inputs and services
- 74 sprayer service providers trained
- 893 SH’s received technical information from promotional events
- Sales of ZMK 4,476,600 from sprayer tillage services
- 121.5 hectares using third party services

PROFIT worked with a large wholesaler to help them conduct a strategic review of their activities and establish an action plan for improving their efforts to target smallholders. The strategic planning session highlighted key weaknesses within their

business and established specific actions to address the identified weaknesses. The strategic planning process will be rolled out to other businesses based on demand.

PROFIT worked with a range of input providers to prepare them for the upcoming harvest time as an important promotional period. PROFIT is working with input providers to organize season-packs of bundled inputs and services. Targeting smallholders when they are cash rich with a full range of inputs and services presents an exciting market opportunity to lock in sales well before the rush of the first rains. The pre-season sales also present an important opportunity to shift farmers away from traditional farming practices to more updated practices based on third party services that perform many of the key on-field practices (tillage, weeding, pest control, etc.).

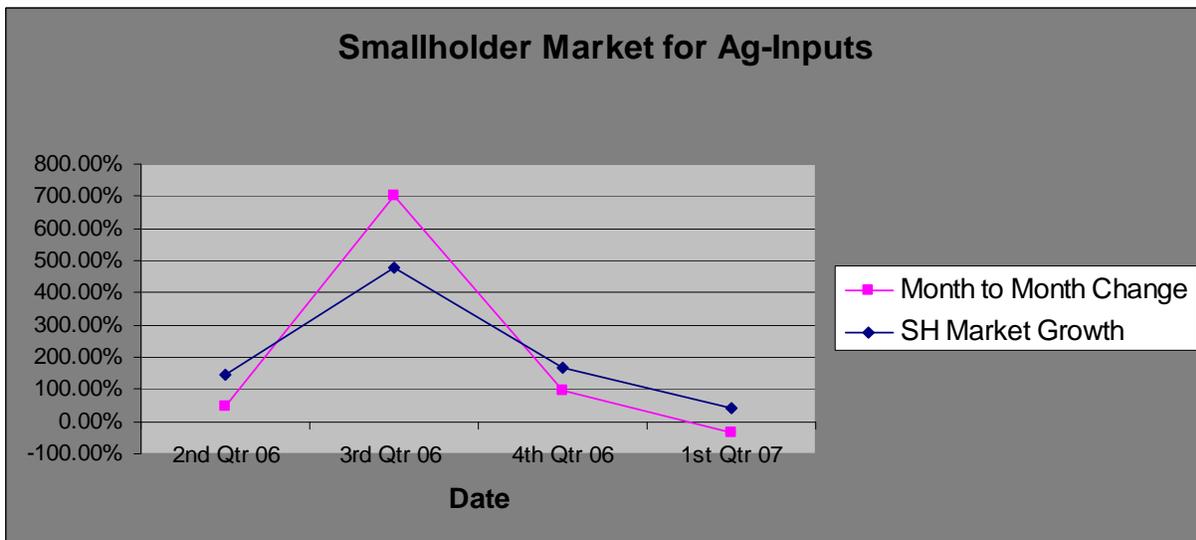
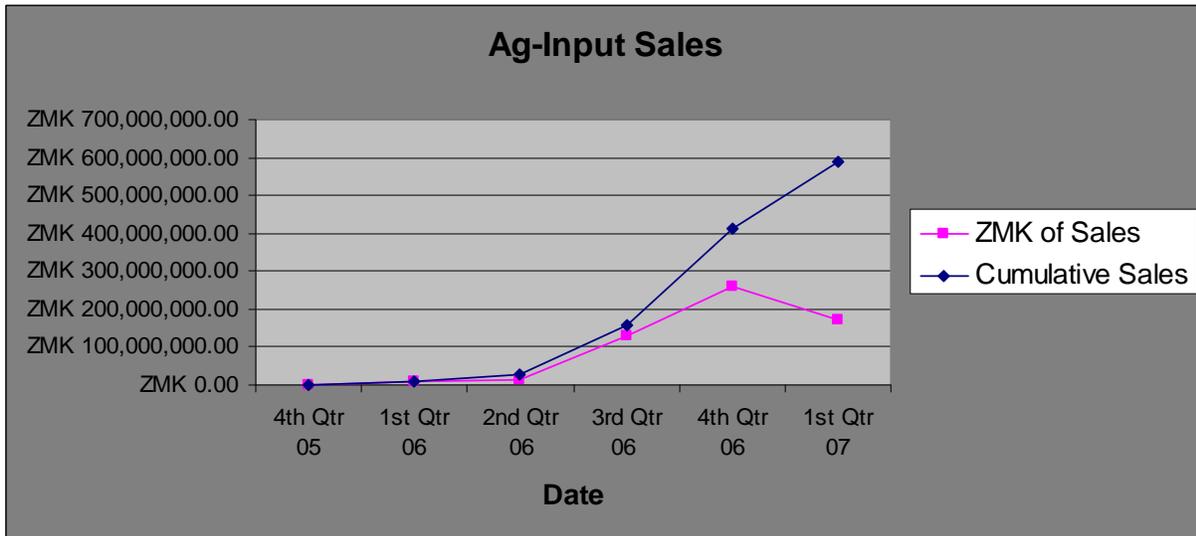
The ag-inputs industry targeting smallholders continued to grow substantially during the quarter (see graph below). The firms working with PROFIT saw sales of 173,029,250 ZMK to smallholders during the quarter resulting in a 42% increase in the sales on a cumulative basis. A total of 893 farmers participated in information-based promotional events where they learned about new products and services available, including training in how to effectively use various inputs. Spraying services saw a sharp change as a result of retailers and outgrowers seeing the potential sales and productivity gains, respectively. 74 new sprayers were trained by retailers and outgrower lead firms.

Commercial grade tillage services are gaining momentum with 30 potential service providers working with PROFIT to market smallholders for post harvest ripping. PROFIT plans to integrate its CFU grant with its tillage service promotions to assure all tillage service providers are pushing conservation-based tillage services.

Realizing the potential of using spraying services to their competitive advantage, Cropserve launched a promotional campaign to increase awareness of their services. The campaign was kicked off with a high profile ceremony to award certificates to twenty of the first spray service providers to become certified. The event included a Deputy Minister of Agriculture, various regional Chiefs, and the head of the local ZNFU office. Cropserve has begun to integrate the sprayer business concept throughout their national network.

Another key improvement in the agricultural inputs industry competitiveness is the increasing integration of third party service providers into commercial smallholder outgrower schemes. PROFIT has maintained that key Zambian industries such as cotton were at a competitive disadvantage by not having access to a robust commercial inputs market offering specialized products and services. PROFIT fostered two pilots during the quarter. Dunavant in the Katete worked with Cropserve to provide training on safe handling of chemicals and spraying to 11 sprayer providers. Great Lakes in the South quickly realized the potential of using third party sprayers and moved quickly from pilot to full blown roll out with 14 sprayers trained in conjunction with Cropserve. In both cases, the initial success has fostered increased interest in both

companies to expand the pilot to include tillage and possibly even inputs from third party service providers.



Challenges

- The general lack management capacity in terms of retail management skills, marketing, and promotional strategies continues to limit the pace of scale up
- The business models PROFIT is introducing including community agents, pre-paid orders, and service platforms for sales of inputs can be hard for retailers grasp which slows the uptake

Activities Planned for Next Quarter

- Work more directly with retailers to push for post harvest promotions of bundled season packs

- Identify potential tillage service providers for mechanized conservation farming training and facilitate post-harvest ripping services
- Facilitate promotional event for tillage services providers with equipment dealers, integrating financing options
- Work more directly with retailers to improve their business management capacity in order to quicken the pace of scaling up their businesses
- Continue to facilitate additional retailers taking on community agent model as a means to target the smallholder market
- Assure adherence to a scalable and sustainable transaction sequence
- Shift mediation assistance from PROFIT to ZNFU for retailers– farmer disputes
- Continue to push adoption of sprayer certifications
- Continue to facilitate integration of third party service providers into commercial outgrower schemes
- Work with ZNFU to design trade fair activities that will broaden and deepen the awareness and understanding of effective inputs usage
- Continue to push the links between spraying service providers and retailers, including formalization of relationships
- Further integrate a range of irrigation products into the retail expansion activities.
- Investigate and potentially pilot the integration integrating other consumables (i.e., talk time and soft drinks) into the ag-input distribution channels to further defuse the transaction costs

Market Leader Development

COTTON

Overview

It is predicted that Zambia's cotton crop will be reduced by up to 40% during 2007. The major reason for this was the political confusion that beset the planting season, with government and growers' association representatives urging farmers not to sign contracts with ginners and accept input packs. This attempted 'boycott' followed the politicisation of the cotton pricing mechanisms in 2006 and what was perceived to be an unacceptably low farm-gate pre-season price offered by the major cotton companies.

Cotton Sector Highlights Jan to Mar 07

- 45,000 farmers trained in sustainable cotton production
- Integration of third party service providers and a reduction in directed input provision receives Board level mandate
- Successful promotional campaign by Cropserve highlights demand among farmers for third party service provision
- 35 agent/distributors trained by Cropserve and five already active
- PROFIT sponsors new comprehensive pest and beneficial insect identification manual as part of an initiative to integrate IPM into cotton extension models
- PROFIT assists the ground-breaking introduction of electronic payment mechanisms to the industry
- Success of spray service provision demonstrated by 14 contractors already established across the country

During November 2006, the ZNFU facilitated and mediated in PROFIT-sponsored talks between the Cotton Association (representing the growers) and the major ginners, the outcome of which was a lifting of the 'boycott'. However, the optimum planting period had already passed by this time, and poor early season rains exacerbated the problem of sporadic and poor quality plantings. Issues of flooding, particularly in Eastern Province, have further dampened harvest expectations.

A further issue that the cotton industry has to face over the current season is an increase in the number of ginning companies and a simultaneous drop in the number of farmers. Several of the new entrants to the cotton industry have adopted procurement policies based on pirate buying, and this could have a very damaging effect on the future growth of the industry.

Notwithstanding the current crisis in which the industry finds itself, PROFIT's interventions in the sector have made considerable progress during the quarter, particularly in the areas of third party input and service provision, and in the integration of improved communication technologies into production and internal corporate management systems. In part, the inroads PROFIT has made into the sector are due to the adverse internal and external pressures on the industry that are forcing the major ginners to improve their management systems and reduce their risk exposure throughout the value chain to remain competitive.

In the area of third party input provision, PROFIT has facilitated a close working relationship between Great Lakes Cotton Company (GLCC) and Cropserve in Southern Province. Over the quarter, 35 agents have been given basic training by Cropserve, with five already active in consolidating orders and cash from their farmer base. Demand from farmers for inputs purchased through a bulk cash ordering system, both for cotton and secondary crops, is very strong, and the realization that inputs 'purchased' through the cotton pack are approximately 20% more expensive than when purchased with cash from Cropserve has strengthened future demand for this service.

Cropserve and GLCC undertook a promotional campaign in two of GLCC's most productive areas in Sinazongwe and Kalomo Districts which attracted over 300 farmers, and generated significant interest from traditional and civic leaders, particularly in the promotion of herbicides. Herbicides are not part of the cotton pack, but can reduce the cost of weed control in both cotton and other crops by up to 70%.

Although PROFIT and the cotton companies began developing and promoting the concept late in the season, there are sufficient spray service providers currently active within the industry to demonstrate the benefits derived from this system. Following a basic training conducted by PROFIT and Cropserve late in 2006, three spray service providers are active within the GLCC system, servicing 30 farmers in the Chikanta area of Kalomo District. Formal training and certification of the sprayers and others

that have indicated a willingness to adopt this business model will be conducted in the next quarter. The 11 sprayers trained, tested and certified by Dunavant in Katete and Chipata Districts have signed contracts with 14 farmers to spray 19ha of cotton with a total service fee of K590,000 (\$140) to be collected during the cotton marketing process. PROFIT has assisted in the promotion of the system by contributing a protective clothing package for each of the initial sprayers tested and certified to give the spray service provider visibility within his community and also to highlight the necessity of the correct equipment from a safety perspective.

Both Dunavant and GLCC have expressed willingness to significantly expand this system in preparation for next season, realizing both the productivity and efficiency benefits and also the indirect 'public relations' benefits derived from promoting a service of significant benefit to their farmers. GLCC distributed over 2,000 new sprayers into their production base over the last season alone, and increasing their area coverage and efficacy through training operators in technical aspects and using their sprayers as business tools has enormous potential to increase yields, particularly in the field of herbicide application.

In an industry where price is perceived as all important, the reductions in input costs afforded by this system and the benefits to yield derived from the promotion and technical training in the use of new production technologies will be critical to improving the margins made by the more progressive cotton farmers. These more open production structures will over time reduce the dependence of the farmer on the company, and significantly reduce the risks and costs to the company inherent with the provision of seasonal finance.

In a move that reflects this shift in mind-set, the GLCC Board of Directors have approved the strategy of reducing the company's input financing activities, and to this end have strengthened their expatriate field management to allow a greater focus on this process by the Operations Manager. Senior management is now discussing a contracting process based on provision of cotton seed only, rather than the current seed and chemical pack.

PROFIT is making significant strides in its attempts to pioneer the integration of SMS-based communication technologies into structured markets. Early in the quarter PROFIT began working with an ICT service provider, CAD International, and GLCC to develop an SMS based system that would speed up and enhance the accuracy of the flow of information regarding input requirements, harvest volumes, transport requirements from the district coordinators and company's 250 distributors. This process has subsequently developed into a much larger exercise with significant implications for the industry. CAD International, with PROFIT assistance, is not only designing an information management system, but also a funds transfer system that would allow electronic payments to be made for the cotton harvest. CAD and GLCC hope to test this model by the cotton marketing season, transferring cash to the phones of the company's 250 distributors via the area managers for onward physical

cash payment to the individual farmers. Currently the cost to the cotton companies of the physical transfer of cash, and the audit issues inherent in this process is prohibitive, and conversion of all or some of this to electronic transfer would entail dramatic savings.

CAD is also working with Dunavant to pilot a similar system of electronic cash transfer to their network of distributors, and it is PROFIT's intention to assist in the design and the demonstration of such a package to prove its commercial viability.

PROFIT's original intervention in the cotton sector, that of direct and indirect training on a large scale to upgrade smallholder farmer sustainable production capacity utilizing low input conservation farming technologies continues under the Conservation Farming Unit grant. The table below summarizes the number of farmers trained during the previous quarter:

Region	Male	Female	Total
Southern	8,771	6,174	14,945
Eastern	7,968	4,332	12,300
Western	3,613	2,937	6,550
Central	6,448	4,954	11,402
Total	26,800	18,397	45,197
Total Project Target	41,500	20,700	62,200*

It must be pointed out that this table does not represent entirely additional farmers from the previous quarter. While training sessions were conducted to 45,197 farmers over the quarter, the majority of these farmers are those that have been receiving training over the course of the CFU grant, as each farmer is exposed to multiple training components. It is encouraging to note that the number of 'additional farmers' (ie non-targeted farmers joining training sessions) is increasing continually. This quarter, a total of 16,917 have been trained – 3,223 more than were trained in the previous session. This is 56% of the overall programme target and of those trained, 45.8% were female. This process can be attributed to 'word of mouth' local promotion of the value of the training sessions, and also a renewed interest in the production of cotton after last season.

CFU and PROFIT management have held a series of meetings to discuss options for the commercialization of CF equipment. A meeting will be held with major commercial retailers during the next quarter in order to present to them the benefits of conservation farming compared with conventional cultivation methods and to explain how the CFU field staff and 4,400 Lead Farmers provide, through the 8,000 training sessions conducted annually, a powerful sales force to promote the purchase of CFU tools and inputs through retail outlets, and demand for this equipment (Magoye Rippers in particular) is evident among CFU's client base. It is anticipated that CF equipment will be made available in a range of rural commercial outlets by in time for the late dry season land preparation period.

At the end of 2006, PROFIT engaged a consultant in Integrated Pest Management to assist Dunavant to strengthen its extension and farmer training capacity in this regard. During this quarter, the consultant has conducted a week-long training with senior Dunavant extension staff to ascertain ways of integrating a much more detailed IPM component into the ongoing Dunavant YIELD extension programme. Progress has also been made on the development of a comprehensive manual of pests and beneficial insects that will be available to the wider cotton industry.

Challenges

- The threat of destructive buying practices and unfair competition in the sector threatens industry growth.
- There will be a substantial drop in cotton production over the 2006-7 season, although indications are that cotton farmers who did not plant in 2006 will be encouraged back into the industry for the next planting season
- The culture of credit in the cotton sector will take time to evolve into an understanding of the benefits of forward purchase of inputs, although there is certainly now a progressive change in attitude among company field staff

Activities Planned for Next Quarter

- PROFIT will work closely with Dunavant and GLCC to promote the fledgling contract spray services, and to train, test and certify service providers
- PROFIT will work with Cropserve to ensure a substantial network of trained agents within the GLCC production system is in place before the peak of the cotton marketing system, to take advantage of the available cash for advance bulk ordering of inputs.
- CAD International will complete the design, install and pilot the SMS based information and fund transfer systems with GLCC and Dunavant.
- PROFIT, through its work with the ZNFU, will work with the three major cotton companies, Dunavant, GLCC and Cargill and the Cotton Association to publicize and highlight the danger to the industry by side-selling and promote the integrity of the cotton contract among growers. This is an intervention requested of PROFIT by the cotton ginners through the recently formed Cotton Pre-financiers Association, and provides an opportunity for the growers and ginners to work towards common goals following the significant rift in relations last year.

HONEY

Overview

The honey export industry suffered significant set-backs during the previous quarter. Firstly, producer prices were up to 50% lower than in previous years as processors aimed to

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Honey Sector Achievements Jan to Mar 07

- Cutting-edge processing equipment for wild African honey designed under the Forest Fruits grant
- Progress made towards establishing innovative demonstration apiaries within the Forest Fruits production network
- Engagement of Zambia's 2nd largest honey exporter through financing an innovative revolving fund aimed at improved production technology adoption
- Work commenced with a major new honey processor in Western Province

cushion themselves against adverse currency fluctuations. As a result, many producers reduced their efforts to gather honey. Secondly, the main harvest period (December to March) was affected dramatically by heavy rain in the early part of the rainy season, that destroyed much of the tree blossom required to ensure stable bee populations and high yielding hives. Forest Fruits Ltd production in Mwinilunga over this season is estimated to be reduced due to this factor by over 60%.

During the quarter, PROFIT expanded its portfolio of clients in the honey sector, to include a well established export company in North Western Province and a start-up operation in Kaoma District, in addition to Forest Fruits Ltd, targeting different constraints in the honey production system in each lead firm.

The PROFIT grant to Forest Fruits Ltd was signed late in the last quarter, and activities started during January. Design of the new processing equipment for wax and honey extraction was undertaken, with the view to procurement and installation early in the next quarter. Production of the improved hives to be installed in demonstration apiaries was commenced, and establishment of the apiaries and training will be started in the next quarter. Forest Fruits Ltd perceives the increase in quality of honey from improved hives and the greater extraction efficiencies derived from the development of new processing technologies to be critical to the growth of the industry. Critical too will be the diversification into higher value bee products such as wax that has the ability to cushion the fluctuations in the honey markets and provide a more stable earning platform for the company and subsequently the honey producers.

PROFIT continues its ongoing staff secondment to Forest Fruits Ltd, to assist the company strengthen its relationship with its widely scattered production base through streamlining communication channels through a system of agents and producer groups.

Following a site visit to the area of operation, PROFIT entered into discussions with North Western Bee Products Ltd, a processing company based in Kabompo but with a massive 75,000sq km catchment area incorporating the majority of North Western Province. The company has been in production since 1988, and has a majority shareholding by the North Western Beekeepers Association. Initially a donor project, the company has been an unsupported commercial entity since the mid 1990's and has since achieved accredited organic and Fair Trade status.

There are 6,500 beekeepers associated with the company, which sells an average of 250t of liquid honey per year – 20% of which is sold locally, and the balance is exported to Tropical Forest Products Ltd in UK, for direct retail and on-selling to leading UK supermarkets and the cosmetics industry.

The main harvest seasons are between May and August and October and March. Each beekeeper maintains an average of 10 bark hives, but the larger producers

harvest as many as 200-300 hives. The majority of processing is undertaken at village level.

One of the main constraints to the growth of the company is the limited productivity of the traditional bark hive. There are management limitations for the company in engaging more beekeepers, and there are further management limitations at producer level in managing more hives. A solution to the problem lies with the adoption of modern production technologies by the producers. While a well managed bark hive can produce 25kg of comb per season, modern Kenyan top-bar hives can produce almost double that volume.

To this end, PROFIT is assisting NWBP with financing towards a revolving fund. Many attempts by donors to initiate such technology adoption in the honey industry have failed through a lack of ownership by the producers (through expectation of handouts) and a poor 'beneficiary' selection criteria. The NWBP revolving fund attempts to address some of these problems by requiring a 'buy-in' at the start by the producers wishing to upgrade their production methods. The intention is that provides an element of self selection, with an emphasis on those larger and more progressive producers. Adoption by this group should encourage adoption by others once the demonstration proves effective. Production of the hives is also to be done locally, with Kabompo carpenters being trained and supplied with materials. It is hoped that this will stimulate a small service sector within the industry.

It is intended that the first improved hives are issued on loan during May, and the application fee would be deducted from honey sales from the May to August harvesting season

THE NWBP REVOLVING FUND

- The fund would be used for the manufacture of top bar hives for distribution to beekeepers on a credit basis. At a cost of approximately K170,000 each, the beekeeper would repay the loan over two years, or earlier if he/she wishes
- The beekeeper would pay a non-refundable Application Fee of K45,000 per hive upon which the hive/s would be made available
- The Application Fee comprises an initial up-front risk premium of K30,000 (to be deposited in the revolving fund) and a contribution of K15,000 towards training costs (to be utilized and supplemented by NWBP)
- There would then be no interest on the principle loan value

During the quarter, PROFIT has also provided technical assistance to a company that has taken over the lease of the defunct GRZ honey processing factory in Kaoma. The company, Lyunda Enterprises, has now successfully acquired a \$175,000 loan from Zambia State Insurance Company to recapitalize the factory and begin purchasing honey from producers in Western and Central Provinces with a view to export the crop to South Africa. PROFIT will assist Lyunda Enterprises in its initial mobilization and organisation of supply by seconding a member of staff to the organisation to develop and train a network of agents on a commission incentive based on quality and volume of supply from a widely dispersed producer base.

Challenges

- A very poor harvest in the wet months has set back the growth of the industry, although indications are that the May to August season will be sufficient to push production levels back to previous levels.
- Low honey volumes in the country have pushed domestic honey prices to sufficiently high levels to encourage side-selling.

Activities for Next Quarter

- During the next quarter, Forest Fruits Ltd will finalize the procurement of the processing equipment and test it under field conditions
- The first demonstration apiaries funded by the PROFIT grant will be established before the onset of the June/July harvesting season and the initial producers trained.
- The first hives manufactured under the NWBP revolving fund will be issued and training begun on their management.
- The staff member attached to Lyunda Enterprises will be recruited and trained, and will begin mobilization of beekeepers in the company's catchment area.
- Following a request from Forest Fruits Ltd, PROFIT has designed a scope of work for a consultant to examine the organisation of the producers supplying the company with a view to putting a case forward to the Fair Trade Labeling Organization (FLO) arguing that provided certain organizational structures are in place, there is no fundamental reason why producers organized under an outgrower scheme cannot achieve Fair Trade accreditation. Currently the rules of accreditation stipulate that the final product should originate from a producer-owned entity, effectively ruling out the majority of Zambia's export value chains from achieving accreditation. The findings of the study, to be conducted during the next quarter, are expected to be made available to the wider outgrowing and contracted farming industries.

HIGH VALUE HORTICULTURE

Overview

In this sector, PROFIT continues to be involved in activities in the paprika and spice industries, and activities have been stepped up in the sugar sector with closer involvement in the planning stage of a major new sugar initiative. Internal issues within a lead firm in the fresh vegetable market has slowed down developments considerably in this sector, but PROFIT continues to widen its client base in the horticultural industry.

High Value Horticulture Achievements Jan to Mar 07

- Survey conducted in conjunction with ZOECO into the extent of the Zambian paprika crop for marketing in 2007
- Testing and certification of 10 spray service providers servicing the African Spices chilli production base
- Finalization of a key feasibility study into differentiated sugar production for an important new sugar development

PROFIT is working with its clients in this sector to integrate the commercial agricultural retail industry and the service sector into these structured markets to reduce the concentration of risk on the lead firm and to promote the adoption of new products and technologies to the growers engaged in the markets. PROFIT is working on the assumption that the organizational and output consolidating structures inherent in these sectors will facilitate the integration of the service industry and allow transaction costs to be significantly reduced through economies of scale.

Freshpikt

The end of 2006 saw an unsuccessful contractual engagement of a peri-urban cooperative structure into Freshpikt's production base. The cooperatives significantly undersupplied on their contracted volumes due to a lack of capacity, and relations have broken down over payment issues. As a result, Freshpikt did not renew production contracts and the company has been slow to develop new smallholder based supply chains. PROFIT and Freshpikt identified a base of semi-commercial farmers in Chongwe that would prove suitable for a second attempt at smallholder engagement, but the company has yet to issue any contracts, or indeed any pricing structure.

As a result of this inaction, PROFIT removed its seconded staff member, and attached him to ZOECO, a paprika processing company with management affiliation to Freshpikt. The intention is that when Freshpikt is in a position to issue further smallholder contracts, the staff member will be able to expand his area of responsibility into vegetable production, since the production base for both companies will be centered in Chongwe District. During its involvement with the company, PROFIT had introduced Hygrotech, an input supplier with a specialization in high value crops, to the Chongwe farmer group with the view to the bulk supply of inputs, and it is hoped that this linkage will be rekindled once contracted production recommences.

ZOECO

This company, a consortium of Zimbabwean investors, took over the Enviro-Oil oleoresin plant in Chongwe in 2005 with the intention to add value to the primary production of paprika grown on a core of commercial farms, but with complementary production from a smallholder outgrower scheme.

Unfortunately, lengthy delays in financing meant that the company was unable to commit to underwrite production until well after the optimal date for planting in October 2006. ZOECO distributed seed to a large potential production base in Central and Lusaka Provinces, but there was reluctance on the part of many farmers to invest in production when a marketing channel was unclear. The collapse of the only other major paprika processing company in the country, Cheetah Zambia, and no firm commitment by ZOECO to provide a market until December provided no incentive to risk a paprika crop.

As stated above, PROFIT seconded a member of staff into the company once their commitment to engage the smallholder market was assured. His preliminary task over this quarter has been to determine the level of potential smallholder supply into the company during the June/July marketing season. The conclusion has been that many of the farmers issued with seed did not plant, and from an estimated 800 farmers provided with seed, only approximately 400 have produced a crop. Half of these farmers are in Kaoma District, and were supplied seed by Cheetah Zambia, but are now focusing their marketing efforts on ZOECO. Among the farmers growing paprika this season there is a very strong demand for an organized input supply system, and it is on this that the staff member and ZOECO will focus during the next quarter. Progress was made late in the last quarter to develop spraying services among paprika farmers in Chongwe District in conjunction with Minelands, and PROFIT maintained a monitoring role over these activities during this quarter.

African Spices

One company outgrowing structure into which PROFIT has had success in integrating input and spraying services is African Spices, a company based in Livingstone, producing chillies under contract with the McIlhenny Co, the makers of Tabasco Sauce in the USA and for the South African based Elephant Pepper brand of sauces. Last year PROFIT seconded a member of staff to the company, to assist African Spices to develop its commercial outgrower scheme (now numbering 220 farmers) and to work with local service providers. PROFIT facilitated linkages between the chilli farmers and three input suppliers, who have between them trained, tested and certified 10 full time spray service providers who are currently spraying both the chilli crop and the farmers' secondary crops, particularly vegetables. During February, African Spices was visited by the US Ambassador, who commended the company on its role in local rural economic development.

Unfortunately, later in 2007, despite apparent economic strength, African Spices is scheduled to close down for reasons internal to the company, and the smallholder chilli production downscaled to focus on Problem Animal Control (PAC) rather than commercial production, with an emphasis on the vulnerable farmers in the Livingstone area under the auspices of a new EU-funded NGO.

PROFIT's focus in the area will shift from the chilli sector to the wider horticultural industry in the area.

Chiansi Sugar Development Scheme

This scheme involves a consortium of commercial farmers and a group of 300 smallholder farmers utilizing a major pipeline/canal development drawing water from the Kafue river to produce sugar under centre pivot irrigation, initially as outgrowers to Kafue Sugar Ltd, but with the ultimate aim of processing the crop internally. During the quarter, the European infrastructure development company responsible for financing the scheme, progressed to the stage of presenting the full project proposal to potential financiers, with the intention to start planting in early 2008.

In order to catalyze the process of organizing the smallholder component of the project, PROFIT has provided logistical support to a key community member responsible for mobilizing local support for the project, that intends to involve approximately 800ha of smallholder production out of a total of 1,200ha.. The direct result of his work is that 400ha is already committed by the community to the project, with the other 400ha to be committed early in the next quarter.

During the quarter, PROFIT also engaged a consultant with considerable commercial experience in differentiated sugar markets to assist Infraco in its wider feasibility study by focusing on some organizational and production options for the smallholder component. The study focused on defining a producer organisation that would be conducive to fair trade accreditation, examining the economics of organic sugar production and conducting an assessment of both market potential and the willingness of potential buyers to invest in such a scheme. Some summary conclusions are outlined below:

Organic Fair-trade sugar out of Zambia – a possibility?

Currently there is a strong international market deficit for differentiated sugar. If the Chiansi Scheme was to focus its smallholder component on organic, fair-trade certified production, it would be a first for Africa. It would present an interesting opportunity for small-scale farmers, but is it feasible?

If one is to consider qualitative factors such as market receptiveness, overall project and technical support, crop conversion time, and availability of local organic inputs, the answer is an overwhelming yes. The study demonstrates that there are key organic/Fair-trade market players in Europe and North America, 100% of whom want to review samples and 91% of whom stated that a new major sugar source is needed. It also demonstrates that 73% of these players (8 organizations) are willing to contribute to the early development and ongoing technical support of the project. Over and above those factors, an 84% increase in certified Fair-trade sugar sales between 2005 and 2006 is indicative of a rapidly growing market.

The quantitative factors that need to be considered such as yields, cost of inputs, labor, transportation requirements, and market price are usually viewed as “make or break” factors in making a sound economic proposal and determining return on investment. The information contained within the study will assist in the assessment of these factors for an organic crop. The low cost of inputs and the expected organic project yields (85% of conventional in third and subsequent years), combined with a current 40% premium in price for organic sugar and \$80USD/MT Fair-trade premium to farmers are expected to be attractive inputs for the project model.

Although pursuing an organic sugar crop does have weaknesses and threats, it is believed that they are offset by the strengths and opportunities. Adding Fair-trade certification, however, tips the balance in favour of concluding that the endeavour should be moved to the next stage. The clearly defined market opportunities and overall project support from key market stakeholders and certifying bodies leaves little hesitation in recommending that an analysis of the quantitative factors be undertaken and that the organic concept be introduced to the small farmers and the mill.

It is hoped that a balanced and long-term approach in reviewing qualitative and quantitative factors, and ultimately the feasibility of this endeavour, be employed. Over and above the factors assessed in this study, the health and wellbeing of farmers, welfare of their future generations, the environmental impact, and the community should carry some weight and be given some consideration in the decision-making process.

Challenges

- Liquidity and marketing issues in Freshpikt, combined with a poor initial attempt at smallholder engagement have hindered attempts to scale up contracted production
- Uncertain market signals early in the growing season have delayed the revival and scaling up of a smallholder paprika sector.
- The closure of the African Spices outgrower scheme represents a set-back to the commercialization of the Livingstone smallholder economy

Activities for Next Quarter

- Engage commercial input suppliers in the paprika supply chain to facilitate an adequate flow of inputs and information by the crop marketing season to ensure a widespread uptake of paprika for the next planting season.
- Refocus the efforts of the Livingstone-based staff member away from the chilli sector into the wider horticultural industry, with particular focus on defining structured supply chains into the large hospitality industry and integrating third party service providers.
- Submit the Chiansi smallholder sugar report to Infraco, and conduct follow-on activities if necessary, working towards implementing an organizational structure by the end of the year.
- Hold talks with two major horticultural lead firms in the Copperbelt (Manunshi Banana Scheme and Stravendale Farm) to ascertain the need for PROFIT intervention in facilitating third party service provision.

MARKET SCANNING

Overview

PROFIT continued to use a range of tools to scan various markets for strategic opportunities. During the quarter, PROFIT identified an interesting opportunity with North West Bee Products Ltd that has emerged into a key activity in PROFIT's work in the honey industry.

Biofuels remains an interest for PROFIT, but no specific opportunity has emerged, and discussions have been held with a number of prospective industry players over options for PROFIT involvement should a structured and transparent contracted production system be established within the industry. One specific intervention that PROFIT undertook during the quarter was to assist a prospective biofuel manufacturer, CHC Commodities, to undertake a research and development trip to Europe and USA to source suitable processing equipment and technical knowledge on biofuel processing. The company intends to install a processing plant in the Mazabuka area with oilseed feedstock being grown by a large smallholder outgrower scheme in Southern Province.

Activities Planned For Next Quarter

- Perform additional analysis on biofuels opportunities
- Continue general market scanning activities

GRANTS MANAGEMENT UNIT

GRANTS

Overview

The activities involving the PROFIT grantees scaled up during the quarter, as many of the smaller Innovation Grants were signed off in January and activities begun. The large grant to the ZNFU was initiated, and its priorities dovetailed into the ZNFU Five Year Strategic Plan. Process towards the development of a grant to ZACA was enhanced with the recruitment of a senior management team, and the dairy industry development proposals were evaluated and final negotiations entered into with two finalist organisations. Provided below is a grant by grant discussion of the status of each on-going and impending grant.

Strategic Partner Grants

Conservation Farming Unit	
Details:	The \$750,000 grant over three years was signed in January 2006
Goal:	To provide direct and indirect (through farmer to farmer) training on a large scale to upgrade smallholder farmer sustainable production capacity utilizing low input conservation farming technologies for hoe and ox farming practices, focusing on cotton as the primary commercial crop. The training programme intends to reach 63,000 farmers by the end of the three years in key cotton producing districts in Central, Southern and Eastern Provinces
Activities:	<p>Over the quarter 45,197 farmers were trained in Session 3 of the four-session training curriculum in Western, Central, Eastern and Southern Provinces.</p> <p>During this quarter, two information leaflets have been developed for farmers regarding the establishment of <i>Faidherbia albida</i>, and <i>Jatropha curcas</i>. Although these are components of CFU's "Conservation Agriculture Programme" the leaflets will be provided to all farmers under the PROFIT programme throughout the next quarter.</p> <p>The new CFU website has now been completed and can be accessed at www.conservationagriculture.net The content of the website is being continuously updated by CFU staff.</p>
Outlook for Next Quarter:	The Conservation Farming Unit will be refocusing its activities during the next quarter to integrate them more closely with the core PROFIT activities. To this end, while the large scale productivity upgrading exercise will continue, training will be reoriented towards embedding technical knowledge related to conservation farming into the input and service sector. Tillage service providers will be taught the relevant skills to promote and sell minimum till services, and the technical ability of input providers and spray service providers will be upgraded to promote herbicide use as the essential chemical component of minimum tillage farming systems

Agribusiness Forum	
Details:	The \$250,000 grant over two years was signed in July 2006
Goal:	To provide a level of support to the Agribusiness Forum to establish itself as a industry think tank on matters pertaining to the engagement of smallholder farmers and producers in commercial high value or differentiated value chains within a Zambian context. The grant also provides scope for addressing some of the constraints around financing within industries that involve large numbers of smallholders.

Activities:	<p>One of the main activities of the ABF was the development of a strategic plan to focus the organisation on the three core activities of learning and development, BDS facilitation and advocacy as demanded from the members.</p> <p>Work has begun on a database of the range of financial services available to agribusiness that will be disseminated to the ABF members early in the next quarter.</p> <p>In January, the ABF hosted a well-attended seminar designed to create greater awareness among its members of possible financing options offered by the Lusaka Stock Exchange in terms of bonds and equity.</p>
Outlook for Next Quarter:	<p>In April, the ABF plans to hold the first in a series of internal discussions between members to identify and begin addressing some of the key constraints to the engagement of smallholder farmers in structured markets, facilitated by an external PROFIT consultant.</p> <p>There are also plans for a meeting between agribusiness and financial entities willing to issue commercial papers, a number of which have been successfully issued into the sector in recent months. Organisations taking part will include Zambia State Insurance, Africa Life and African Banking Corporation.</p>

Zambia National Farmers Union	
Details:	The \$500,000 grant over three years was signed in December 2006
Goal:	<p>To utilize the unique position of the ZNFU in the rural economy as a respected and strong advocacy body with the reputation for independence and lack of bias with a diverse membership base and large geographical footprint to fill a critical gap in the Zambian market for an organization independent of market interests that can provide elements of confidence, transparency and credibility to rural markets. Efforts will be concentrated on:</p> <p>a) stimulating rural input and output markets through the establishment of commercially run trade fairs and livestock auctions, b) developing the capacity of the ZNFU to act as a mediator in regional and national disputes and building market confidence at the district level through market assurance mechanisms c) supporting and enhancing the ZNFU's national SMS based price discovery system and developing local information brokerage capacity at District Farmers Association level</p>
Activities:	<p>The implementation of the grant was set back by administrative issues, and therefore the launch of activities directly related to the programme has been postponed until early in the next quarter. Progress made during this quarter included the appointment of a senior PROFIT staff to work with the Union on implementation, and a fact-finding trip undertaken to the key District Farmers' Associations to determine what Union activities are currently undertaken at district level and how these activities can be coordinated with new PROFIT activities.</p> <p>The PROFIT/ZNFU programme forms a critical part of the Union's five year Strategic Plan, to the extent that district staff have been mandated to undertake activities under the scope of the PROFIT/ZNFU programme in half of their time. This should ensure a widespread uptake of some of the key concepts promoted by PROFIT once implementation takes place in accordance with the workplan submitted during the quarter. To underline the importance of the ZNFU component of the PROFIT programme and vice versa, a major meeting was held between PROFIT and 20 key district staff in March, and the target districts selected for initial activities.</p>
Outlook for Next	<p>Implementation is planned for April 07, and the key priorities this quarter will be:</p> <p>a) implement an STTA in April to develop mediation skill sets within the Union at</p>

Quarter:	<p>Head Office and district level initiate support for the SMS price discovery system to increase its scope and its network coverage.</p> <p>b) Provide training in market facilitation to the key district agribusiness managers as an initial step in reorienting their focus from the direct provision of market-related services (input distribution, sales consolidation etc) as a means towards local income generation towards market facilitation activities, centered initially around commercially-run Trade Fairs</p> <p>c) provide funding towards the development of an electronic library and information centre at ZNFU Head Office</p> <p>d) procure two vehicles to increase the capacity of provincial staff in North Western Province and Northern Province to oversee PROFIT activities</p>
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Africa Parks	
Details:	The \$400,000 grant/MoU over three years was signed in July 2006 whereby PROFIT implements a community economic development program on behalf of, and closely tied to the African Parks management. The AP/PROFIT team established a presence in Kalabo in September 2006
Goal:	To assist the communities surrounding Liuwa Plain National Park to become engaged in commercial input and output markets, in particular in the livestock and tourism sector. The programme also provides more general entrepreneurship training, market linkages and business development services to the remote communities with the intention of diversifying the income base and providing economic opportunities that reduce destructive utilization of the fragile natural resources of the area.
Activities:	<p>During its first quarter of activity, the PROFIT/AP team achieved the following:</p> <p>a) Livestock: The team is working with a commercial veterinary service from Mongu to facilitate the expansion of their contracted herd health management services into Kalabo District. Although activities have been reduced over the quarter by the logistical difficulties imposed by widespread flooding, the first contract, for 42 animals was signed in March. This will serve as a pilot project for the area, where the enthusiasm that was generated by the initial promotion of the services has not been easily translated into action on the part of the farmers.</p> <p>b) Tourism: Tourism activities during this quarter focused on preparing for a more substantial community engagement and more value addition during the next season. Activities undertaken included</p> <ul style="list-style-type: none"> ○ The development of a visitors' centre and central craft shop ○ An expansion of the Barotse Royal Establishment Museum into Kalabo to form a Liuwa Plain Museum ○ GPS information and walking trail design for tourists ○ Park campsite management and financial restructuring and improvement of services/infrastructure ○ Soliciting interest from private sector partners, in conjunction with the local community, in the development of a Kalabo campsite <p>c) Entrepreneurship and Business Development: Activities have been hindered by the difficulties in communicating with the women's groups, but the staff continued to build off the successful basketry skills training and subsequent market linkages undertaken in December through monitoring the fulfilling of basket orders and mentoring the women's groups.</p> <p>d) Forestry: PROFIT conducted an initial investigation into the current status and management of the local forests in and around Liuwa with a view to determine whether a combination of controlled logging, reforestation and even the sale of carbon credits can provide sufficient generation of income for local communities to incentivise sustainable forest management. The next stage in the process is to work with a forest ecology consultant attached to Africa Parks to determine current and future land use patterns.</p>

	<p>e) Agriculture: PROFIT and Africa Parks conducted an extensive study into the rice production and marketing systems in areas to the north of Liuwa where the crop is dominant. The area is also critical for wildlife management as it forms a key corridor for wildebeest during the migration, so land use and future development needs to take this fact into account. The study concluded that although markets are distant and erratic, there are substantial improvements to the rice economy that could be gained through intensification of production, economies of scale in transport utilization and greater exploration of the huge price swings evident in the local rice market. These improvements will form the basis of a PROFIT intervention in the dry season.</p>
Outlook for Next Quarter:	<p>a) Livestock: Once the floods recede, there are plans to facilitate an exchange visit for some of the area's major farmers to one of the active veterinary schemes in Western Province. A Community Livestock Worker training programme is scheduled for late in the next quarter.</p> <p>b) Tourism: Activities will include finalizing the development plan for the Liuwa Museum and the Kalabo campsite, and working with an Africa Parks marketing volunteer on designing a strategy for doubling the numbers of tourists visiting the park in 2007, and ensuring maximum benefit is attained by the communities involved in the process. An important meeting with local tribal leaders scheduled for April will be used as an opportunity to redesign the revenue split for income generated by the campsites and other commercial activities to increase the incentives for the managers of those activities</p> <p>c) Entrepreneurship and Business Development: The PROFIT staff plan a sustained push to ensure that campsite shops are stocked with products of a saleable quality for the beginning of the next tourist season in June.</p>

Zambian Agricultural Commodities Agency (pending)	
Details:	The grant agreement for approximately \$500,000 over two years will be drawn up in the second quarter of 2007 following a strategic planning process
Goal:	To provide financial support to ZACA to upgrade its commercial management structure and provide technical capacity to promote the concept of warehouse receipting with commercial financial institutions and potential clients – initially the large scale traders and farmers to provide scale and a degree of financial sustainability, and thereafter small traders and farmers. PROFIT will also provide technical assistance to the organization for a strategic planning exercise to determine the current and future role of the organization in the critically important areas of agricultural finance and trading. ZACA is funded for two years, whereafter it is intended that the organisation is commercially viable
Activities:	During the quarter PROFIT assisted the Board of Directors to identify and recruit the three senior management positions – Executive Director, Finance Manager and Operations Manager. Contracts were finalized and signed. PROFIT also identified and recruited a part time Technical Advisor to ZACA from the commodity trading sector who will provide on-going technical support to the new management team, in which there is a lack of solid experience in the agricultural commodity economy.
Outlook for Next Quarter:	In April, PROFIT, with the assistance of an STTA, will be conducting a Strategic Planning process for ZACA with the new management team, the Board and relevant stakeholders. The outcome of this process is intended to be a revised vision and mandate for the organisation, a reorientation towards commercial applicability and the establishment of a framework for the PROFIT grant

Dairy Industry Development Programme (pending)	
Details:	The \$3m grant agreement over three years will be drawn up early in the second quarter of 2007 following negotiation and award to the successful candidate in the current competition process.
Goal:	To foster innovation in smallholder and emergent dairy sector development, test

	markets for products and services and catalyze and strengthen commercial relationships between commercial processors and input and service providers and the smallholder dairy sector
Activities:	PROFIT received nine proposals in the competition, of which two satisfied all the application requirements. Both applications, however, entailed strong donor intervention in industry processes and did not follow the PROFIT methodology as specified in the RFA. In February, the two valid applicants received a set of criticisms and the deadline for the revised and final proposals was set for the end of March.
Outlook for Next Quarter:	Early in the next quarter, PROFIT will evaluate the final proposals and negotiate a final agreement with the successful bidder/s.

Innovations Grants

Forest Fruits Limited	
Details:	The \$100,000 matching grant over one year was signed in December 2006
Goal:	To develop incentives internal to the honey value chain for the adoption of improved honey production technologies and to test improved technologies at the processor level for increasing the extraction of wild honey and adding value to raw product through the development of high value products and markets. The grant focuses on Forest Fruits, a company engaging 5,000 producers in North Western Province exporting organic honey to Europe and USA, but the lessons learned and technology derived from the grant will be accessible by the wider honey industry
Activities:	During the quarter, the capital items associated with improved processing (wax and propolis production equipment and improved honey extraction machinery) was designed, and awaits procurement early in the next quarter. The equipment and materials required for the manufacture of the improved top bar hives that will comprise the training apiaries was also sourced.
Outlook for Next Quarter:	During the following quarter, the procurement process will be finalized and the equipment will be installed. Training will also start on improved hive production techniques and research begun on propolis extraction and marketing

Kalahari Natural Oils Limited	
Details:	The \$40,000 matching grant over one year was signed in January 2007
Goal:	To develop a production base in Western Zambia (from Mongu to Livingstone along the Zambezi ecological corridor) around the market for organic natural tree oils and to develop a level of primary processing at village level. Critical to the success of the project will be developing an efficient supply chain capable of promoting and maintaining production, quality control and traceability in a very large and sparsely populated area.
Activities:	Following the signing of the grant, production of the village based nut cracking equipment was initiated, and selection of the agents has begun. The company has started to buy nuts, and is anticipating a substantial crop. Full programme activities will start in April
Outlook for Next Quarter:	Early in the next quarter, the company will a) initiate an ecological survey that will provide the first step in organic certification b) finalize the procurement process for the basic processing equipment c) begin the training of the local agents through whom procurement of product and training of producers will be conducted

Veterinary Laboratory	
Details:	The matching grant of approximately \$40,000 over one year was signed in January
Goal:	To assist the livestock industry in Zambia develop a private veterinary diagnostic laboratory based in Lusaka with the capacity to conduct disease analysis, blood

	sampling etc to provide a critical service to the Zambian veterinary industry
Activities:	<p>Following the signing of the grant, the procurement process was initiated, and by the end of the quarter all the major equipment was in place, and a technical staff recruited. An intensive training programme conducted by the South African supplier of the diagnostic equipment was undertaken towards the end of the quarter.</p> <p>The laboratory is currently focusing its attention on the poultry sector, which provides the most robust market and will form the bulk of the revenues for the laboratory. Services offered include microbiology, post mortem facilities and a comprehensive serology component which will offer the only functional Avian Influenza testing facility available for public use</p>
Outlook for Next Quarter:	The laboratory is currently operational, and activities for the next quarter involve developing the capacity of the technical staff to manage the equipment and deliver the diagnostic services, and marketing the services to the wider poultry industry. The next stage in the expansion of the laboratory, which involves the application for international accreditation for the poultry services and diversification into cattle diagnostics will not take place until March 2008, once the commercial foundations and technical expertise have been established in the poultry sector

Africonnect SMS System	
Details:	The \$40,000 grant agreement was signed in January 2007
Goal:	To promote and demonstrate the benefits of pro-active marketing through mobile phone technology by the agricultural retail sector using Cropserve as a model and to demonstrate to farmers that cell phones can be key tools in their business. The grant aims to demonstrate the viability of an SMS marketing and information system in the agricultural inputs sector as a means to inform smallholder clients regarding on-farm practices, products and services.
Activities:	Over the quarter, significant progress was made in the design of the SMS based customer service platform, to the extent that by the end of the quarter, it was being tested prior to rolling it out early in the next quarter. The website design is also in its final stages, and the VSAT communication link at the Cropserve Choma office is ready to be brought on line. All components of the grant are in the final stages, and Cropserve has expressed satisfaction at the pace and quality of the service.
Outlook for Next Quarter:	The communication systems will be finalized and launched during the next quarter.

Savannacom SMS System	
Details:	The \$50,000 grant agreement was signed in January 2007
Goal:	To pilot ICT services to assist agricultural retailers reduce their transaction costs and increase their interaction with their smallholder clientele through the development and demonstration of a mobile accessed e-commerce procurement hub and mobile based payment service or 'Tradelink'. The partner retailer firm involved in the pilot is Croppack Agro Services Limited of Lusaka, with a target clientele in Mumbwa District.
Activities:	During the quarter, a comprehensive user requirement survey was undertaken, and the design of the system was completed. The equipment required to be installed at Croppack was ordered and is expected to be installed during the next quarter.
Outlook for Next Quarter:	A fact-finding visit to Kenya is scheduled to examine a similar and established system. Installation of the equipment and initial testing is expected during the next quarter.

Ecolift/Mukuni Development Trust (pending)

Details:	The grant of approximately \$50,000 over one year will be signed later in 2007 subject to negotiation
Goal:	To assist in the formation and development of a for-profit company owned by in part by the Mukuni Community in Livingstone, the purpose of which will be to transfer the management and ultimately the ownership of a specific tourism enterprise (the Ecolift vernacular railway) and then develop additional revenue streams from the assets owned by the community
Activities:	Early in the year, the Mukuni Development Trust established a for-profit company, which was a significant first step towards formulating a grant. PROFIT conducted a market assessment that will contribute to defining the goals and priorities of the new company. The survey indicated a generally positive business environment for the company. However, further development requires action on the part of Ecolift and the new company to commit to the process of defining a joint venture before PROFIT proceeds with developing the grant.
Outlook for Next Quarter:	PROFIT will conduct a strategic planning process, from which the scope, value and duration of the proposed grant will be derived, once the relevant commitment has been determined.

Activities Planned For Next Quarter

- Finalize and award the Dairy Industry Development Grant
- Finalize the award to ZACA following the Strategic Planning session
- Oversee and mentor the initial critical start-up phase of the ZNFU grant
- Conduct the mediation training that forms a major part of the ZNFU grant
- Work closely with the Conservation Farming Unit to refocus some of their activities towards developing the technical capacity of the input and service sectors
- Work towards developing the grant for Ecolift
- Assess possibility of defining a grant for Zambia Institute Banking and Financial Services to develop commercial bank training products

CROSS CUTTING ISSUES

Finance: During the quarter PROFIT launched its four pronged financial market strategy. PROFIT finalized a program with Zambian Institute of Banking and Financial Services (ZIBFS) to design and improve the training capacity of its trainers to deliver two training products. PROFIT will provide a technical expert to ZIBFS to assist in designing two international standard bank training products. The first product will be on leasing and the second on agricultural lending. The training products are expected to be ready to be promoted to the bank industry during the next quarter.

PROFIT has also finalized the outline for a demand driven technical assistance program for individual banks. The program will be finalized and launched during the next quarter. PROFIT also finalized a program with a lead firm in the honey industry to test a value chain financing model that will include an application fee. The mechanism will be launched next quarter.

PROFIT began a process of linking an equipment dealer with a leasing agent that will package the leasing deals for various lending institutions. PROFIT is investigating direct relationships with Banks.

PROFIT worked with LuSE and the Agribusiness Forum to hold an awareness building session with a number of businesses that are interested in taking advantage of the new tier or bond issuance services. The meeting was well attended and has led to an additional meeting with Zambian State Insurance, Africa Life, and the African Banking Corporation that will take place in the next quarter to discuss how institutional investors invest in commercial paper.

PROFIT worked with Professional Insurance to investigate cattle insurance. At first glance Professional Insurance is interested, but is looking for immediate returns without making the necessary investments in building the market. So while smallholders are very keen, additional work is needed by PROFIT to convince Professional Insurance and other insurance firms of the longer-term potential of the market and the importance of making the upfront investments.

Activities Planned For Next Quarter

- Finalize and implement the training product development effort with ZIBFS
- Finalize and launch the bank technical assistance program
- Continue to assist ABF in presenting its series of financing events with the next event on how institutional investors issue commercial paper
- Launch value chain pilot with honey lead firm
- Continue working with Banks to identify lending opportunities with lead firms, SMEs, and farmer groups
- Continue explore the leasing agent concept especially for larger equipment

ICT: During the quarter PROFIT launched two pilots for specific customized ICT services to two ag-inputs suppliers. The two pilots are progressing with one input provider seeing the potential and working hard to take full advantage of the opportunity and the other input provider unsure of the benefits and being less responsive. The ICT providers are both keen to learn from the experience and apply lessons to other potential clients. In both cases, the SMS market system is up and being readied for launch. Africonnect/Croserve pilot has also finalized the website design that will allow for Cropserve to effectively manage its SMS marketing system, and possibly add on e-commerce functionality.

PROFIT is also working with an ICT firm to improve its sales support for an off the self SMS management tool. The tool is highly cost effective of SMEs and can be easily installed and managed even by relative novices. However, the level of Zambian-based technical support for the product was very weak so PROFIT is assisting firm in building its Zambian capacity to provide client post-sale support (i.e., user training, customization, and maintenance). PROFIT will facilitate a promotional effort to encourage uptake of the product once the tech support is in place.

PROFIT finalized the design of a pilot to develop and test an e-check or e-payment system for two outgrower firms (Great Lakes Cotton Company and Dunavant). The service has the potential to accomplish two broader goals of PROFIT. The first is to assist larger outgrowers in reducing the risk and costs of paying cash to a large number of dispersed farmers. The second is that the backbone of the service provides a commercially viable, but intermediate step to a fully functional m-banking platform. PROFIT is also negotiating with the outgrowers and the ICT firm to integrate the e-check system into a broader management system. The fully integrated system could further reduce transaction costs by easing the data collection and management functions resulting in greater assurances of on-farm production and collection requirements. With greater assurances, the firms can develop effective incentive packages to push production and target investment in high returning farmers. The service pilot will be conducted during the next quarter.

Activities Planned For Next Quarter

- Provide oversight for Africonnect and Savanncom grants and assess lessons learned and assist ICT firms to sell customizable services to other ag-business firms
- Continue to facilitate vets, input retailers, and outgrowers to access to SMS tools to improve customer relations, increase sales, and improve management practices
- Oversee the testing of the e-check services and facilitate scale-up
- Integrate the e-check service plat form into a broader management information system for test by larger outgrowers
- Scan opportunities for ICT services that can be facilitated to address critical constraints

Gender: PROFIT turned the findings of the gender study into a training for staff that was conducted during the quarter. The training focused on targeting women networks for improving awareness building, making a commercial rationale for targeting women with promotional activities, and tracking secondary female beneficiaries.

Activities Planned For Next Quarter

- Finalize the study
- Assess the affects of gender training on staff activities
- Institutionalize annual gender study as part of PROFIT M&E process
- Assess the commercial potential to extend some service offers (i.e, vets) to target support for activities that are traditionally the domain of women (i.e., goats, chickens, etc.)

HIV/AIDS:

Due to a range of issues, CHAMP did conduct any additional activities during the Quarter.