



# THIRD QUARTERLY REPORT FY2007

July 2007

6, Tukuloho Road,  
Private Bag 307X  
Lusaka, Longacres  
Tel: 01 251371  
Fax: 01 255502  
[profit@profit.org.zm](mailto:profit@profit.org.zm)

<b>Table of Contents</b>	
ADMINISTRATIVE DATA	
FINANCIAL DATA	
PROFIT INDICATOR TABLE	
QUARTERLY SUMMARY	
PROGRAM MANAGEMENT & ADMIN	
MARKET DEVELOPMENT ACTIVITIES	
LIVESTOCK	
AGRICULTURAL INPUTS	
MARKET LEADER ACTIVITY	
COTTON	
HONEY	
HORTICULTURE	
MARKET SCANNING	
GRANTS MANAGEMENT UNIT	
CROSS CUTTING ISSUES	

## 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	
Appropriation	72 – 19X1030
BPC	GGAX-05-21611-1G13
Outlays this Quarter	
Total Outlays to date	
Uobligated balance of Federal Funds	
Obligated balance of Federal Funds	

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

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

PROFIT INDICATORS ANNUAL 2006			BASELINE	FY 06		FY 07
				TARGET	ACTUAL ANNUAL	ACTUAL 3 <sup>rd</sup> qtr
24	Number of people trained in	Agricultural production	32,000	40,000	41,513.00	
		Private sector growth	40,000	50,000	41,470.00	
		Nat. Resource Mgmt and Conservation	5,500	5,500	5,500.00	

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 3 <sup>rd</sup> Qtr
1. Number of events held that provided training on topics related to improving the trade and investment capacity building	500	
2. Total value of exports in targeted sectors in which firms are receiving USG assistance to increase their exports	\$4,200,762	
<b>3.2 Financial Services</b>		
1. Number of financial sector professionals trained in international standards	60	
<b>5.2 Private Sector Productivity</b>		
1. Number of firms with improved management practices as a result of USG assistance	191,750	
2. Number of firms investing in improved technology as a result of USG assistance (SD)	101,750	
<b>6.2 Agricultural Sector Productivity</b>		
1. Number of additional hectares under improved technologies or management practices as a result of USG assistance	185,000	
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	
<b>7.3 Strengthen Micro-Enterprise Productivity</b>		
1. Micro enterprises served by USG-assisted business development service providers	50,000	
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	
<b>8.1 Natural Resources and Biodiversity</b>		
1. Number of people trained in natural resources management and/or biodiversity conservation as a result of USG assistance	25,750	

## QUARTERLY SUMMARY

### Overview

The third quarter of FY 07 saw a rolling out of four major new initiatives for PROFIT. The first was launching a financial services technical assistance fund (fund) that will allow banks to cost share internal upgrading. It is expected that the first technical assistance activities will be in August of 07. The fund responds to a substantial weakness within financial service providers to perform adequate analysis and management of resources in such a way to allow them to profitably deliver financial services to a wide range of agribusinesses.

The second and third initiatives are related to PROFIT's grant with the Zambian National Farmers Union (ZNFU). The second initiative started with training ZNFU staff in preparation for offering mediation services to rural businesses the launch of which is expected early in the next quarter. Smallholders and rural businesses whether input providers or buyers have had difficulties forming effective commercial relationships. Through mediation services, PROFIT expects to foster more effective relationships based on underlying interests and not superficial power positions as is the case in most transactions. The third initiative was began with assistance to ZNFU agribusiness managers for planning and presenting regional trade fairs. The trade fairs will focus on providing a platform for building more and more effective commercial relationships between input providers, farmers, and buyers.

The fourth major initiative was laying the foundations for a commercially driven commodity exchange linked to a warehouse receipts system. By directly linking market incentives to warehouse assurances services (e.g., inspections and certifications) PROFIT expects to increase market transparency, stabilize the warehouse receipts system, and establish a clear pathway for the eventual use of various hedging mechanisms through the exchange.

In addition to the four major initiatives, PROFIT has also maintained and increased its momentum in the cotton, inputs, and beef/vet industries. Cotton industry activities progressed substantially during the quarter with Great Lakes and Dunavant having asked PROFIT assistance to shift their outgrower management. Both firms have realized the risks of continuing with an extensive (increasing number of farmers) approach to outgrower management as oppose to an intensive (increasing productivity per farmer) outgrower management strategy. In order to evolve the two companies from their extensive management strategy to an intensive strategy PROFIT is helping to increase the use of third party service providers for spraying and tillage, and the use of information technology to overcome costs and risks of making payments and managing information.

Beef/vet industry activities follow on from last quarter in assisting vets to stabilize their businesses with improved cash-flow and inventory management, and expand through

accessing young vets as part of an internship program. Supply side limitations including the number of private vets, their business acumen (including promotional), and their access to support services remain the primary constraints to vet services growing in the near to medium term. Through business skills, young vet, promotional campaigns, and vet lab support efforts, PROFIT expects to see continued and increased rate of growth of vets services to rural cattle owners. For communities that have been on vet contracts for over a year and have resigned for another year, PROFIT began to link them to processors for off-take contracts.

The inputs industry continues to perform well with increasing sales to smallholders and growing integration into outgrower schemes. The input industry has moved towards services as a means of expanding access to smallholder markets, and with PROFIT's assistance they have improved their ability to target promotional campaigns tied to cashflow spikes of smallholders. A focus of PROFIT's assistance during the quarter was on preparing input providers to push promotional events during the post harvest period when smallholder have more cash. Preparation for these events has included assistance to input providers in designing bundled service/products offers that would allow smallholders to pre-pay for a range of products and services that would substantially improve their yields. PROFIT has also had substantial success in integrating third party services into cotton outgrower schemes with substantial increases in spraying and tillage services linked into Great Lakes and Dunavant schemes.

PROFIT has increased its assistance to the broader honey industry by working with a second lead firm to develop a value chain finance scheme. Through the scheme, better beekeepers that would like to upgrade their hive technology can access a loan for a locally produced modern hive.

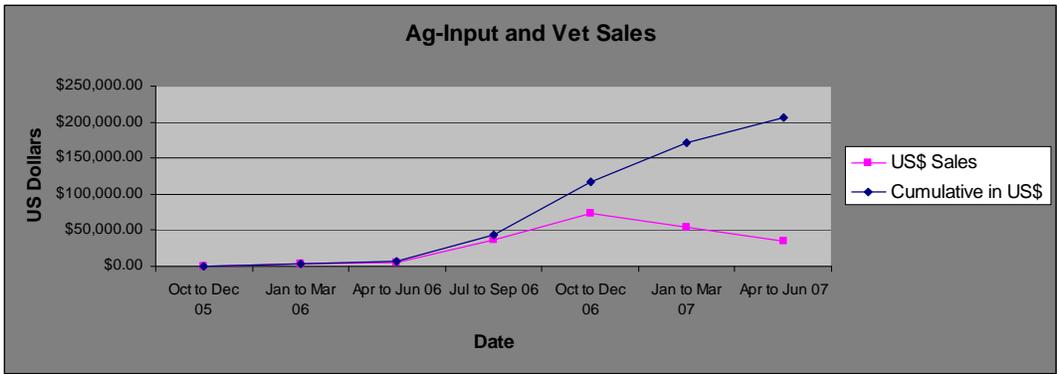
Closely related to cotton and input provider industry activities, PROFIT has moved to increase the use of information communication technologies (ICT) to overcome key weaknesses and constraints of developing commercial relationships with smallholders. Specifically, PROFIT worked with ICT firms to pilot test an e-payment system to limit the risks and costs of paying large numbers of smallholders, design SMS market information systems for input providers to increase the information flow to smallholders, and design management systems for outgrower schemes. In all cases, PROFIT organized the pilots to foster a stronger ICT industry while targeting a key weakness within the agricultural sector.

In addition to the technical assistance fund, PROFIT continued to work with a range of financial services providers to expand access to agribusiness and smallholders. In particular, PROFIT continued to foster links between insurance products and smallholder cattle owners, equipment leases and tillage service providers, and alternative equity and debt service providers and agribusinesses.

PROFIT continues to improve its knowledge management techniques and tactics to assure effective learning and adjustments in response to market dynamics. In particular, PROFIT initiated two review processes. The first process focuses on assessing staff skills related to reading market dynamics. PROFIT's relies heavily on its staff's ability to accurately read changes in behavior among smallholders and commercial actors and then communicate those changes within PROFIT allowing the project to effectively react to reinforce or counteract the change. It is only through these learning loops that PROFIT can be effective in fostering sustainable improvements in industry performance. The second process focuses on setting up an on-going evaluation process that will be conducted every six months to learn the effects of PROFIT activities at the farm/household level. PROFIT needed to improve its evaluation processes to obtain more robust information on the effects at the farm/household level, including required indicators (e.g., productivity indicators) that can only be determined once or twice a year. Both of these efforts will be integrated into PROFIT staff upgrading/learning processes.

### **Achievements**

- Major shift in cotton industry leading to improved lead firm cooperation and improved outgrower management.
- Launch of commercially grounded exchange and warehouse receipts system
- 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
- Launch of 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
- Financial strategy launched with technical assistance fund
- ICT strategy underway with lead firms paying for commercial services for m-payment pilot and outgrower management system
- The PROFIT intervention strategy highlighted at a USAID sponsored workshop in Ethiopia



### Challenges

- 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 was able to fully integrate its management and administrative team, as Jemeh Egwuagu worked very closely with our grantees on their financial reporting and accounting procedures in order to improve their financial reporting. Jemeh Egwuagu in conjunction with our technical managers was able to finalize two new contracts and close out another.

The reshuffling and addition of key field staff was also completed this quarter and this has allowed the project to continue to reach its overall strategic goals as evidenced by the increased activities concluded in the cotton, inputs and vet industries. Furthermore, four major activities as highlighted in the Quarterly Overview commenced this past quarter and work under those four new activities will continue in earnest for this upcoming quarter.

Two key staff members attended two different USAID sponsored workshops this past quarter.

A pre-PROFIT management issue has continued to create various distractions for the project, but it is envisioned that this issue will be resolved by the end of this quarter.

### **Achievements**

- The two proposals under the dairy initiative that had made it to the final competitive stage were finalized and it is envisioned that activities for both partners will commence next month. Both final proposals will be managed directly from NCBA, DC and are now awaiting final approval by NCBA.
- The ZNFU contract was finalized and vehicles that were needed under this grant for the proposed activities were purchased and supplied.
- The ZAMACE contract was also finalized and ZAMACE is now a legal commercial commodity exchange.
- PROFIT-USAID upgraded its accounting system to PASTEL – this should facilitate the ease and accuracy of our in house record keeping and financial management systems.
- Employee contracts were finalized and signed. Contracts were modified and updated to reflect Zambia's current labor laws.
- The CHAMP contract was finalized and a final pay out and closure was completed. While CHAMP's HIV activities were conducted and managed in a satisfactory manner, their administrative, financial and activity reporting was not up to the level needed by the project. PROFIT-USAID is very close to formalizing a contract with a local NGO to provide and expand the HIV activities that have already been put in place the past two years.
- Grace Malama, the PROFIT-USAID Administrative Manager was afforded the opportunity to attend a USAID sponsored workshop on USAID administrative

rules and regulations that was held in Kenya. The training was extremely useful for Grace Malama and it is envisioned that this training will enable Grace Malama to perform at a higher level for the overall betterment of the project.

- Mike Field also attended a USAID sponsored workshop in Ethiopia where Mike Field and Damaseke Mlotha from USAID were able to highlight to the various participants the intervention strategy and work being carried out by PROFIT-USAID in Zambia.

### **Challenges**

- Our current M&E officer has abruptly resigned from his position to take on a Fulbright Scholarship. Since a professional and accurate M&E system is a crucial component for the project, this position needs to be filled. It is envisioned that the position will be filled internally from one of our field staff. He will be mentored by one of our Engineers without Borders Volunteers. This resignation coming at the very end of a reporting period was untimely to say the least.
- While grantee financial reporting and accounting procedures have vastly improved, their activity reporting needs to be improved upon in order for the project to be to accurately convey the various activities that are occurring under each contract.
- As noted above, there is still one outstanding pre-PROFIT management issue that is not resolved. This issue arises from time to time in various forms and has become a distraction to management and staff alike. It is envisioned that this issue will be resolved by the end of this next reporting period.
- There is still room for improvement from grantees on their financial reporting.

### **Activities Planned for Next Quarter**

- Address the final outstanding administrative and accounting issues that were highlighted as areas for improvement under the external NCBA audit.
- Jemeh Egwuagu will start field visits to our various regional offices in order to ensure that field officers are complying with all accounting and administrative rules and regulations.
- Complete and submit to DMMU, a final audit report to address the issues that have been brought forth by DMMU relating to the activity that was carried out pre-PROFIT.
- Develop an activity reporting form for each one of our grantees in order to facilitate a higher level of activity reporting for the project.
- Incorporate our new M&E officer into his position.
- Finalize the HIV activities contract with our new partner.
- Effectively incorporate the two partners under the PROFIT-USAID dairy initiative in a manner that will ensure that all activities planned under this important initiative are carried out in a timely and professional manner.

## INDUSTRY DEVELOPMENT ACTIVITIES

### VET/REDMEAT

#### Overview

The ability of vet businesses to scale up their businesses continued to be the focus of PROFIT activities this quarter. PROFIT worked on four initiatives with vets during the quarter to increase vet sales. The first was strategic planning assistance focusing on cashflow, inventory, and marketing management. PROFIT designed and launched a step by step process to assist vets to walk through their business's management processes to see where and how to improve performance. The process is based on the integration of adult learning techniques with strategic management principles. The combination provides for the maximum learning while directly focusing in on key weaknesses of individual vet businesses.

The second initiative was to assist vets capture greater synergies from a combination of HHP services, individual services, and product sales. The combination of these different types of income streams can be mutually supportive resulting in greater overall sales. Vets that actively cross sell are experiencing solid sales growth, while vets that do cross-sell all three income streams are not experiencing the same level of sales growth. In community agents and CLWs are key components in this process, as is the foundation of an HHP.

The third initiative was to assist vets design and launch targeted promotional campaigns to coincide with smallholder cash inflows. PROFIT assisted vets to organize promotional events that focus on the benefits of HHP services, but also to cross-sell individual services and products. The HHP provides an important logistical platform that deals with many of the transactional costs that have in the past prevented vets from delivering services to smallholders.

The fourth initiative was an integrated effort to increase the number of vets involved in offering services to rural smallholders. The efforts included the launching a young vets program, strengthening linkages to the University, and facilitating recruitment services. The combination of these efforts was designed to create a more robust platform for industry growth by increasing the number of vets active in private vet practices. The young vet program cost shares a young vet with a private vet business for their first internship year. Closely linked to the young vet program is the linkage program with the University that is establishing direct links between private vets and

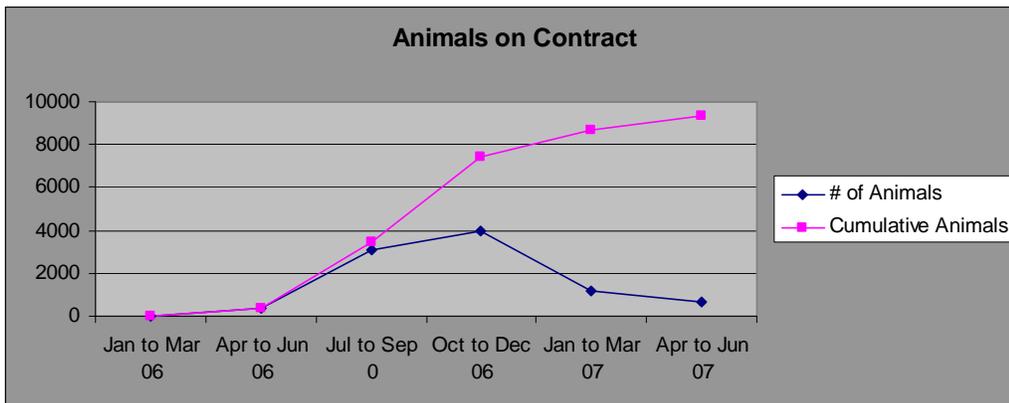
#### Vet/Red Meat Achievements Apr to Jun 07

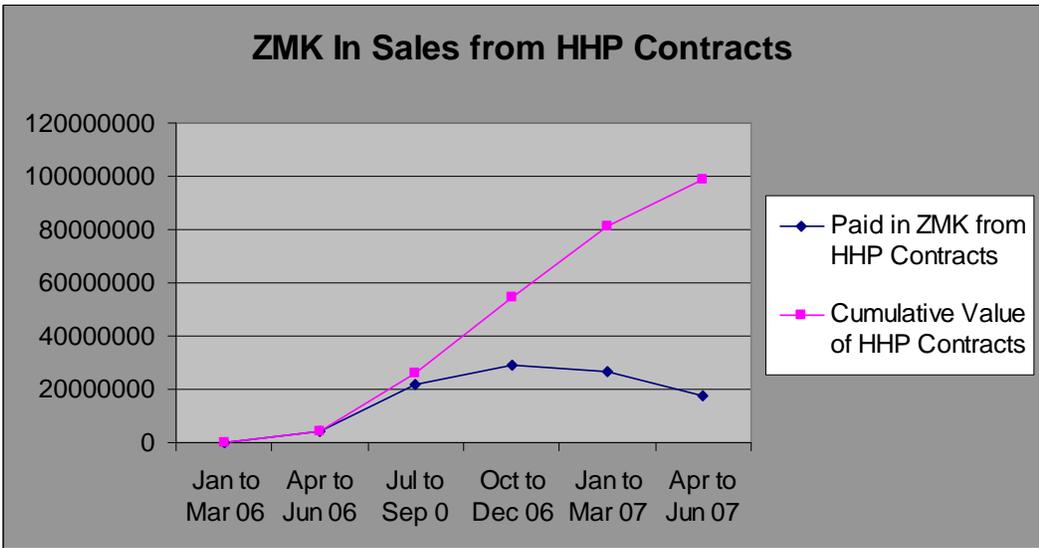
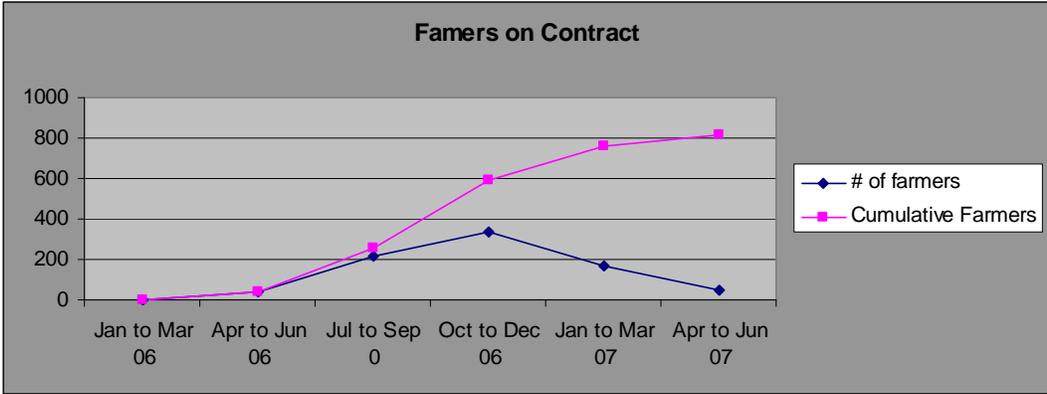
- ZMK 17,529,400 in HHP sales to SHs
- ZMK 20,130,850 in individual SH sales
- 4 in community promotional events were conducted
- 389 SHs attended in community promotional events
- 82 agreements between vets and SHs
- 666 number of animals under vet contract
- 52 SHs under vet contract
- 3,933 number of animals using vet services

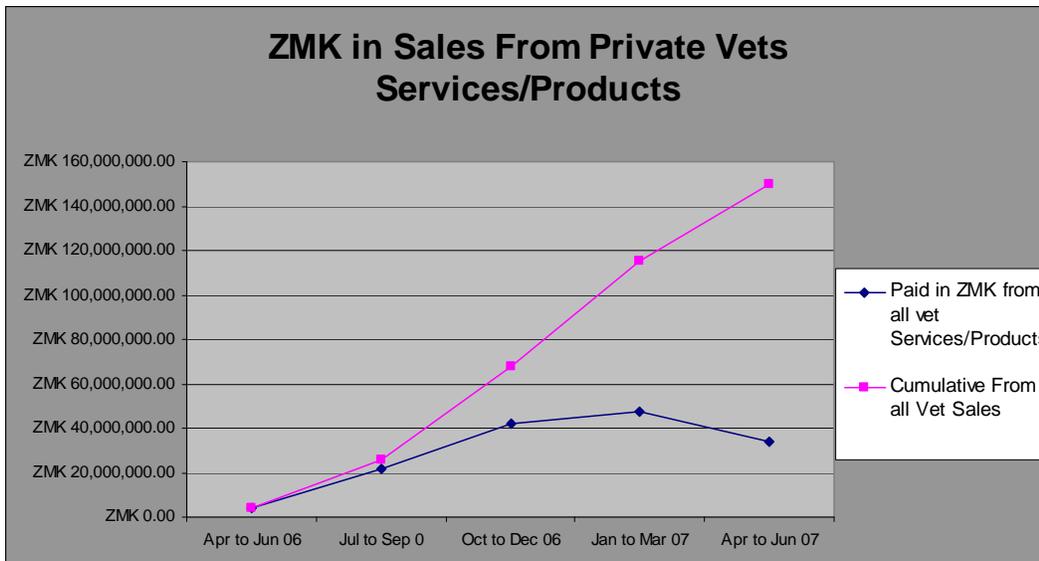
the university. The program should lead to short-term internships for students before they graduate and greater awareness within the University of the skill set requirements of the private vet industry. The recruitment services are critical to providing vets options when the service is dependent on a single person. Recruitment services would include temporary employment services, assistance in finding and filtering potential candidate vets, and promoting vets directly to farmers. Through these services recruitment firms provide a cost effective way for vets to maintain service schedules by using temporary help and find partners for expanding their services in response to the high levels of demand. Recruitment firms also provide a service for farmers by offering a database of vets in their area allowing farmers to quickly access vets when they need one or are unhappy with their current vet. PROFIT worked with recruiting firms to develop databases, perform market research on service needs, and design advertising campaign.

The figures for the quarter continue to prove the viability of a private vet services market for smallholders. For this quarter alone another 52 smallholders placed 666 animals on contracts resulting in over 17.5 million ZMK new sales from contracts (see graphs below). An additional 182 smallholders purchased individual fee-for-service dipping and vaccinations paying over 20.1 million ZMK. Cumulatively, since the inception of PROFIT's efforts to facilitate private vet services, smallholders have paid over US\$36,000.00 to purchase preventative health services for their cattle.

PROFIT continued to coordinate with government during the quarter, including them in the Vetlab launch. The Vetlab launch also resulted in a new initiative to provide additional training to vets on diagnosis skills. PROFIT will work with the Vetlab to design professional training services that they can offer to vets initially free as part of a promotional campaign. PROFIT would then work with Vetlab to develop a income streams to cover the costs of the training via training fees and sponsorship from industry. For example, the poultry industry is keen to sponsor some specialized training to vets in response to some disease issues that are threatening the industry.







### 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 scale up 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
- Shift from PROFIT mediating to ZNFU mediating vet – farmer disputes
- Continue to promote veterinary laboratory services and launch vetlab training services
- Further integrate Ministry of Agriculture's Vet office into vet network activities
- Solidify 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

The focus of PROFIT's work during the quarter was to prepare for and organize promotional events targeting pre-paid services and inputs sales to smallholders. A critical weakness in smallholder market is the combination of the lumpy cashflow of farmers with unwillingness to hold cash for very

long. The risk of holding cash that is highly fungible and easy to lose or be stolen is too high for farmers so they quickly turn cash into assets or social capital investments. A way to address this weakness is to re-align input providers' marketing strategy to coincide with farmer cash inflows. To do this properly also means helping the input providers restructure their offers to be pre-paid for delivery later in the year, and for the input provider to offer bundled products and services. PROFIT worked with input and service providers to prepare for promotional events that effectively take advantage of the post harvest cash inflows.

PROFIT also ramped up its integration of third party inputs into outgrower schemes. The details of how the integration is working will be covered in the cotton industry section, but it is important from an industry perspective to note the substantial growth from this segment of the smallholder market and the potential spillover benefits for other crops. Both Dunavant and Great Lakes Cotton Company are shown substantial commitment to using third party service providers integrated into their outgrower management. All sprayers are linked to input providers creating substantial improvements in the flow of information and services to farmers producing other crops.

The integration of third party service providers into outgrower schemes that also sell services and products to farmers farming other crops strengthens the conservation farming messages. Partly due to this opportunity and the increased interest in tillage

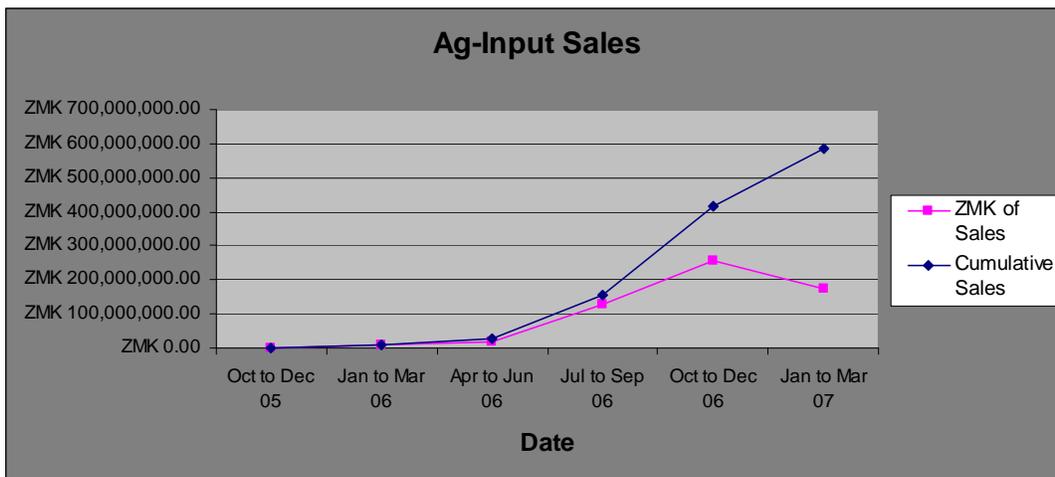
### Ag-Inputs Achievements

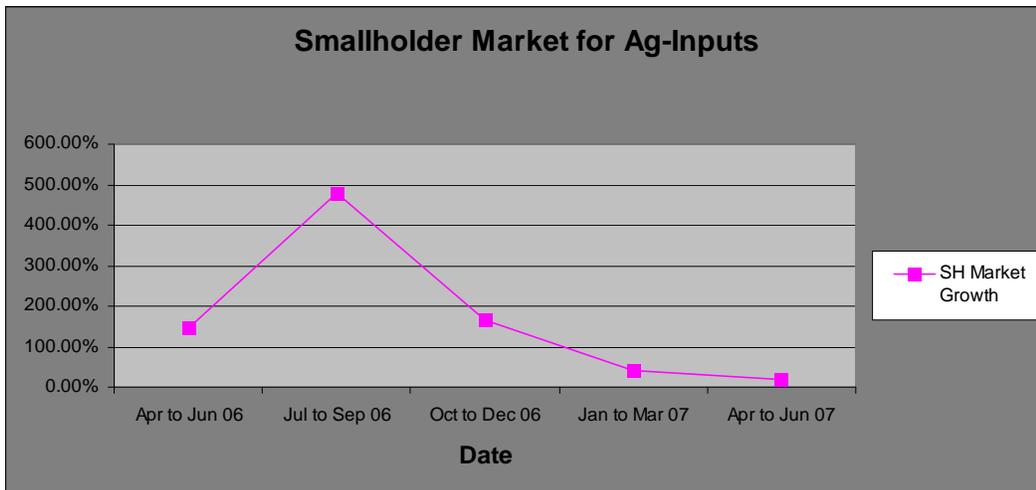
Oct to Dec 06

- Sales of ZMK 110,406,600.00 in ag-inputs and services
- 389 agents trained
- 195 SHs accessing inputs
- 9 in community promotional events conducted without PROFIT
- 1,653 SHs attended in community promotional events
- 13 agreements signed between retailers and agents
- 4 internal retail training events delivered without PROFIT assistance
- 141 SH buying improved technology services (tillage, spraying, weeding, IPM, etc.)

services, PROFIT began facilitating conservation farming training for input provider agents and tillage service providers. PROFIT is confident that conservation farming techniques will be adopted at a higher rate when integrated in commercially grounded relationships, including service relationships.

The ag-inputs industry targeting smallholders continued to grow substantially during the quarter (see graph below). The firms working with PROFIT saw sales of 110 million ZMK to smallholders during the quarter resulting in a 19% increase in the sales on a cumulative basis. A total of 1,653 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.





### 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

- Continue to work more directly with retailers to push post harvest promotions of bundled season packs
- Facilitate contracts between tillage service providers and smallholders for mechanized post-harvest ripping services
- Continue to 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 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

## COTTON

### Overview

The cotton industry plays a critical role in the rural economy of Zambia. It is, by a significant measure the most important cash crop for smallholders, and over 250,000 smallholders are actively engaged in supplying seed cotton to nine ginning companies. The ginning companies inject over \$10m a year in input credit into the smallholder economy, making the sector the largest rural financing entity in the country, and they provide essential auxiliary services such as transport and extension.

### Cotton Sector Highlights April to June 07

- 200 trainers trained by the Conservation Farming Unit in sustainable cotton production
- New information system designed to improve the management of a large production base finalised and being tested
- M-funds transfer system being tested to determine feasibility of electronic payment of cotton farmers
- Innovative strategic partnership brokered between Cropsolve and Great Lakes Cotton Company based on third party input, extension and service provision
- Initiative to develop 100 spray service providers within the Dunavant production network launched
- Engagement of Dunavant, Conservation Farming Unit and a financial service provider to expand the availability of improved tillage technologies into the cotton sector
- Major campaign organized by PROFIT to prevent illegal cotton buying and selling practices launched

Cotton is also Zambia's largest agricultural crop, earning over \$80m a year (2005 figures) in foreign exchange for the country, and has a reputation on the international market as a very high quality producer of cotton

The reasons for the success if the industry are numerous – a stable macro-economic environment has encouraged ten years of industry growth, and strong private sector investment in infrastructure, extension and quality control has been critical, as has the willingness of the ginners to share the risks of production with the growers through substantial credit provision.

However, over the last two seasons, the cotton industry has faced serious threats, firstly from the substantial appreciation of the Zambian Kwacha, the subsequent farm price fluctuations and their politicization, and more recently from the malpractice of some of the new players in the industry. These cotton companies are not 'playing by the rules', and are encouraging farmers with contracts and loans from other companies to default on their contracts by offering higher prices at farm gate – a practice made possible by the fact that they have not incurred the costs and risks involved in investment in inputs, extension and other critical services. This practice dramatically affects the willingness and ability of the reputable ginning companies to

continue their investments in future years and risks undoing ten years of growth in the cotton industry.

These crises have combined to reduce the current 2007 harvest cotton crop by over 40%, and substantial change is required if the industry is to deal its internal threats and maintain competitiveness on the international market.

PROFIT has significantly expanded its involvement in the industry at multiple levels since the inception of the program, believing that investment here has the potential to yield significant benefits to the rural economy as a whole. PROFIT believes that the industry is at a crossroads, where the traditional model of very large, and to a large extent uncontrolled, numbers of growers producing consistently poor yields, and with ginners shouldering unacceptably high risks in terms of credit and service provision is no longer a viable option for the industry. The landscape of the industry has changed to involve lower production margins, lower ginning margins and more ginners generating both healthy and damaging competition. PROFIT believes that it has an important role to play in the transition to a scenario where the commercial input and service sector, traditionally only indirectly involved in the industry, plays a key role in production upgrading, and where the ginning companies, while spreading the risks of production into the retail sector, concentrate their efforts on their core business and focus their investment in fewer, better growers, utilizing improved management information systems to understand and manage their production base to the benefit of grower and ginner.

PROFIT also sees a role for itself in the transition from an industry driven by two major players to one in which there are many ginners with differing interests. The Government is in the process of amending the Cotton Act, that will put a regulatory framework around the issues of pirate buying, but in the meantime, PROFIT, through the ZNFU, sees the need for intervention in the non-policy environment to prevent serious damage being done to the future of this critical industry.

#### Direct Production Upgrading

The initial PROFIT involvement with the industry was direct and indirect training on a large scale to upgrade smallholder farmer sustainable production capacity utilizing low input conservation farming technologies, and this continues under the Conservation Farming Unit grant. This is more pertinent now that farm gate cotton prices have reduced by 25% in the last two years, and the only significant way in which farmers have the capacity to influence their income is through yield improvements. The major activity under this grant during the quarter was the training of 200 trainers across Central, Southern and Eastern Provinces. Within the scope of the grant, and still with a focus on the cotton industry, the CFU is assisting PROFIT to drive the technologies of conservation farming into the retail sector, and more specifically to the cotton sector, the contract tillage industry through training of service providers.

Also during the quarter, the Integrated Pest Management consultant engaged by PROFIT to train Dunavant extension personnel has been active.

#### Improved Interfirm Cooperation

As described above, PROFIT's main intention in this component of the program is to facilitate the improvement in the manner in which information flows through the industry. Currently, the strategy adopted by the major ginners is to extend as many input packs and thus production contracts to as many growers as possible, with little or no screening and no assessment of the transaction costs involved in servicing sub-marginal farmers and areas. With increased costs of production and processing and transport, this model is no longer viable, and one indicator of this is that cotton yields have remained stagnant or are even falling, despite years of industry intervention.

PROFIT believes that, with rapidly developing technologies and accessibility even in rural areas, the ICT industry may offer a range of commercially viable services that can directly address the issues of performance monitoring and analysis. PROFIT sees database integration with mobile phone technology as an important platform for collecting and managing information flows allowing outgrower managers to refocus their strategic direction on improving efficiencies throughout the industry by targeting productive farmers. To this end, PROFIT is working with an ICT firm, CAD International, to facilitate CAD's ability to develop and test a range of information services that can be sold to cotton lead firms, and subsequently other outgrower scheme operators to improve their ability to engage large numbers of smallholders on a commercially viable basis. During the quarter, using Great Lakes Cotton Company (GLCC) as a pilot, CAD has been working on defining the current process and communication flows within the cotton industry in Zambia, analyzing these processes and communication flows to determine how more automated data based solutions could benefit the industry, and designing a database that would address some of these needs. At the time of writing, GLCC is inputting data into the system and trialing its operation.

During the quarter, CAD has also been designing a funds transfer system that would allow electronic payments to be made for the cotton crop via mobile phone technology. CAD and GLCC are in the process of testing this system by the cotton marketing season, transferring cash to the phones of a trial selection of the company's 250 distributors. 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.

#### Support Market Development

This quarter has seen significant progress in PROFIT's activities to incorporate greater involvement of both the commercial agricultural retail sector and locally operated third party service providers into the cotton industry.

Building on the close working relationship facilitated by PROFIT between GLCC and Cropserve in Southern Province, in which, after a large promotional campaign during the last quarter, over 30 agents within the GLCC network have been trained and are active in bulking orders for cotton, secondary crop and livestock chemicals, PROFIT is now facilitating what has the potential to be a ground-breaking strategic relationship between the two parties. The intention is to create a commercial partnership whereby some of the technical and input related services offered to cotton farmers by the outgrower company, including the input loan pack itself, could be offered to better advantage to all parties by a commercial agrochemical company, allowing the outgrower company to focus on core areas of farmer selection, monitoring, yield prediction, aggregation and processing.

It is the intention of this partnership to develop a reliable and efficient input supply network within the GLCC production base, utilized by Cropserve for the delivery of the cotton input pack, auxiliary cotton chemicals, herbicides, chemicals related to secondary crops and livestock, technical information and training of both farmers and in-community service providers (agents and sprayer contractors).

It is intended that this system will lead to greater adoption and improved usage of improved production technologies for enhanced yields and quality of cotton, enhanced production of secondary and food security crops and increased income at farmer level. Greater yields at farm level will also mean higher margins and less risk exposure to GLCC through a concentration on fewer farmers, lower transaction costs and, it is hoped, greater contractual loyalty. The targeted numbers to be reached and operational by the beginning of the 2007-2008 planting season are the mobilization, training and certification of 30 distributor/agents and 80 spray service providers, and to assist in the initial stages of the partnership, PROFIT has dedicated one member of staff to the process.

Another, related area that has been a focus of PROFIT's intervention in this component has been the development of in-community spray contracting services, whereby individual farmers are trained by the cotton company and/or a local agricultural input provider, to provide a scouting and spraying service to his/her peers with the chemicals either provided through the input pack or the local retail network. During the 2006-2007 season, PROFIT introduced the concept of commercial spraying services into the Dunavant farmer network in Eastern Province, with 11 farmers trained, tested and certified by Dunavant to provide spraying services. Review meetings during this quarter have demonstrated that this pilot project was a major success, making spraying more effective thereby increasing yields, and putting the spraying process into the hands of individuals trained not only in spraying techniques but scouting, chemical handling and safety. With the use of ULVA sprayers, the

spraying process was significantly more efficient, cutting time, chemical wastage, water and energy demands. Using ULVA sprayers, spray service providers spent an average of 2hrs /ha against more than 4hrs /ha using the conventional sprayer and using only 10l /ha of water compared to more than 120l /ha, taking a major burden away from the women and children who traditionally draw water for spraying purposes.

Dunavant senior management agree that if the introduction of spraying services is to have any meaningful impact at a macro level, the process of introducing the service to farmers and distributors, and training service providers needs to be scaled up rapidly and to this end, the process of identifying, training and mobilizing 100 sprayer in Eastern Province within the Dunavant network has begun, with one member of PROFIT staff dedicated to kick starting the initiative and designing a management system that Dunavant can internalize to scale up this process across their production areas.

Another service that PROFIT believes to be critical to the improved productivity of the cotton sector is commercial tillage, specifically minimum tillage through ripping. Ripping is not only more beneficial to long term soil structure and productivity, but can be done during the dry season, thus eliminating one of the major causes of poor cotton yields – that of late planting due to availability of tillage equipment and poor time management during the critical early rains period. During the quarter, PROFIT has been working with ten tractor owners in the major cotton producing areas of Central and Southern Provinces to develop business plans around commercial ripping of cotton fields, and the Conservation Farming Unit has assisted with providing technical training in minimum tillage methodologies. However, the program has also been exploring means of increasing the number of operational tractors in high potential rural areas, as demand for tillage services significantly outweighs the supply of available equipment. One such approach is working with a financial services company, Sapitwa, towards developing leasing packages for agricultural equipment. The intention is that Sapitwa identify prospective clients, package appropriate leases, and sell them on to financial institutions for a commission on the sale, and ideally a share of the risk. A local equipment dealer, Afgri, is currently selling new machines for around \$35,000, and it is hoped that Afgri would be able to enter into a relationship with Sapitwa and possibly take on some of the leasing packages themselves. Otherwise, some of the more progressive banks are willing to finance well-packaged leasing deals along these lines. Initial calculations show that a \$35,000 tractor lease can be paid off over 1,000hrs or between three to five years. During the quarter, PROFIT forwarded the financial profiles and business plans of 13 farmers from Southern and Central requiring tractors for tillage service provision to the lease brokerage firm for assessment and forwarding to financial institutions. Involvement with an already assured and structured market such as cotton would become significantly more attractive to a potential financier if there were already signed contracts for tillage with cotton farmers and some form of assurance of repayment through cotton sales.

Dunavant is very keen on promoting this expansion in mechanized tillage into their production network, and to that end, PROFIT is discussing the concept of Dunavant identifying business people within their distributor system capable of taking on the financial commitment of an equipment lease and a contracting business, and subsequently supporting the expansion through placing financial guarantees behind the leases.

Talks held with a new ginning company in Eastern Province, Birchand Cotton, point to the fact that the company is also interested in promoting these services within its intended 10,000 strong farmer base in Chama District.

Non Policy Enabling Environment

PROFIT’s main activity during this quarter was the organization, in conjunction with the ZNFU, of a major anti-piracy campaign during the initial stages of the cotton marketing season. This support involved the publication of educational material(including an anti-piracy poster seen to the right), mobilization of ZNFU and Cotton Association staff in key cotton producing areas to promote the integrity of a cotton contract and warning of the dangers of side-selling, and the organization of a high profile campaign ‘launch’ in June, during which the Minister of Agriculture, Hon Ben Kapita, and the president of the ZNFU spoke out against the illegal practices of both ginners adopting side-buying practices and the farmers from whom they are buying cotton.



## Challenges

- The threat of destructive buying practices and unfair competition in the sector severely threatens industry growth.
- While senior management within the cotton industry understand and are enthusiastic about the changes PROFIT is facilitating within the industry, field staff are reluctant to embrace change and some initiatives such as the spray service provision, requires substantial effort to promote among company staff.

## Activities Planned for Next Quarter

- It is intended that CAD complete the installation of the management information system within GLCC and test it during the current cotton marketing season
- PROFIT will work closely with GLCC and Cropserve to set in place the new strategic partnership involving inputs, spraying and extension
- PROFIT will assist Dunavant to scale up its spray service provision networks in Eastern Province
- The program will continue to facilitate the expansion of tractor-driven tillage service provision through scaling up its identification and training of existing tractor operators and facilitating leasing packages for those that require new equipment. The program will formalize the involvement of Dunavant and hopefully Birchand in this process.
- Further talks will be held with Birchand once approval for a variety of PROFIT-facilitated interventions have been granted by the Board of Directors
- Following on from the successful anti-piracy campaign, the ZNFU and the Zambian Cotton Outgrower Pre-financiers Association have requested PROFIT support before the input distribution season to highlight the dangers of non-certified seed being distributed by some of the new ginning companies that threatens not only the yield potential of the cotton crop, but also the integrity of Zambia's strict cotton seed purity regulations.

## HONEY

### Overview

The honey export industry has suffered significant set-backs during the last year, with producer prices cut by up to 50% that of in previous years as processors aimed to cushion themselves against adverse currency fluctuations and climatic conditions severely limiting the main December to March harvest.

However, the current May to August

### 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 2<sup>nd</sup> 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

harvesting season is currently underway in North Western Province, and is already seen to be a bumper harvest, raising hopes of a significantly improved year for the industry.

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.

PROFIT is also working with North Western Bee Products Ltd, an export processing company based in Kabompo with 6,500 affiliated growers in a massive 75,000sq km catchment area incorporating the majority of North Western Province. During the previous quarter, PROFIT designed and established a revolving fund within the company with a focus on the upgrading of traditional production methods to modern hive technologies by the best performing beekeepers within the company's catchment. The NWBP revolving fund attempts to address some of the previous problems associated with the roll out of modern hive technologies 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.

During the quarter, identification of the producers willing and able to commit the up-front payment was completed, and 53 of the 70 hives planned for the first 'revolution' have been constructed. Further resources were put towards increasing the loan package to include a set of protective clothing since traditional methods of subduing hives at harvest have been seen to be ineffective under more intensive management. The first demonstration hives were harvested during the season, and proved that both yield and quality significantly improve under improved management.

Distribution of the hives and training on their usage will begin late in the next quarter during the swarming season. Part of the up-front payment committed by the producers

goes towards the costs of their training, further reinforcing the concept of investing in their own production capacity improvement.

PROFIT has also been working with a new honey processing company, Lyunda Enterprises, that has taken over the lease of the defunct GRZ honey processing factory in Kaoma with a view to recapitalize the factory and begin purchasing honey from producers in Western and Central Provinces for export the crop to South Africa. While the major loan requested from Zambia State Insurance Company for a complete rehabilitation of the factory was turned down, the company received trading finance during the quarter and has begun to purchase honey. PROFIT is supporting the development of the company's supply chain through financing and providing logistical support to the key field officer responsible for the development and training of 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 organization 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 its approach to the horticultural industry, PROFIT is focusing on facilitating strong and constructive links between the lead firms and their smallholder production base. PROFIT is working on the assumption that a robust and structured output market provides a strong platform for

smallholder investment in their production. This in turn provides a suitable marketplace for third party input and service providers, for them to play a critical role in the development of these industries – driving improved knowledge and adoption of new technologies through input provision and extension – two functions that the emerging players in this sector are unwilling to fulfill. It is the intention of PROFIT to encourage this approach – of the lead firm providing a credible and stable market place that stimulates a demand for investment in production upgrading by farmers that is satisfied by the commercial service sector. It is also assumed that there are significant economies of scale to be derived by the service sector operating within the scope of these structured markets, bringing transaction costs down and making inputs and services more accessible to the farmers within them.

During the quarter, however, the implementation of this approach was hampered by internal mechanisms within three of the program's lead firm clients that led to market uncertainty and consequently a lack of willingness by both farmers and service providers to engage them.

### Freshpikt

There was no activity during the quarter as no action was taken by the company towards developing long term supply linkages with a smallholder production base. PROFIT removed the seconded staff member from the company last quarter, but once the process of drawing up supply contracts with smallholders resumes, PROFIT will divert staff resources towards ensuring that the process works, and lessons learnt from the original and unsuccessful engagement of smallholders are taken into account.

### ZOECO

This company, a consortium of Zimbabwean and Zambian investors, took over the Enviro-Oil oleo-resin 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. The 2005-6 production season focused on a commercial crop, and unfortunately, financing

#### High Value Horticulture Achievements April to June 07

- Organization of supply and the buying process begins in the paprika sector
- Major survey conducted to determine the scope and status of potential smallholder involvement in the Chiansi Sugar Development Scheme
- PROFIT takes the lead role in designing and implementing a complex and innovative smallholder commercial entity in the sugar industry.

constraints and resulting market uncertainties prevented the planting of a large smallholder crop during the 2006-7 season.

However, a significant number of farmers (approximately 400 in Central and Western Provinces) still planted paprika utilizing their own resources, and it has been the intention of ZOECO to organize and purchase this crop. The primary responsibility of the PROFIT staff member within ZOECO during this quarter has been the establishment of the supply channels, organization of bag distribution, and crop aggregation. Unfortunately, during the quarter, two issues have hampered the exercise. Firstly, management and financing issues internal to ZOECO have created delays in crop purchase, and considerable uncertainty within the potential suppliers in the smallholder sector, to the extent that some farmers have returned the empty bags given to them by ZOECO and removed their crop. Secondly, the re-emergence of Cheetah Zambia as a purchasing entity, with competitive pricing and cash payments has already meant a considerable loss of crop from ZOECO.

PROFIT will make a decision during the next quarter as to whether the investment in ZOECO continues to be worthwhile. To be eligible for PROFIT assistance, a company must demonstrate a commitment to its supply base and an intention to invest in the upgrading of its producers. While initial indications from ZOECO were positive, and seemed to offer a platform for the expansion of third party input suppliers and service providers into a high value structured market, this situation is now proving doubtful.

### **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 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.

Progress in the development of the outgrower scheme has been hampered during the first half of 2007 by uncertainty over the future of the company following a loss of senior management, and the role of a new, EU-funded NGO that is directing African Spices' sister organization, Elephant Pepper Development Trust, away from commercial chilli production and into livelihood and food security priorities. However, during May 2007, the shareholders of African Spices, in consultation with PROFIT, decided that the company would continue with a small commercial production base and scale up its outgrower scheme to a targeted 30ha of fresh chilli in the 2007 season in order to continue servicing the McIlhenny Co market. The outgrower component would therefore replace the original internally-produced crop. The

company would target the emergent farming sector with which, through PROFIT intervention, it has developed a commercial relationship over the last year. African Spices would continue to purchase excess dry chilli crop from the smallholder and subsistence sectors for incorporation into the Elephant Pepper sauce brands.

During the quarter, the chilli crop was being harvested, and at the time of writing over four tons of fresh chillies had been purchased, with a value of over K10m (\$2,500) and 2.5t of dry chilli of approximately similar value had been purchased from 45 farmers.

### **Chiansi Sugar Development Scheme**

This scheme involves a consortium of six 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. The project involves the formation of three companies – one being responsible for the management of the commercial crop, one being owned and managed by the smallholder farmers, and the other being a bulk water and service delivery company responsible for the sale of crop and the servicing of the debts of the project, in which the smallholders and commercial farmers have an equity stake.

PROFIT's interest in this scheme lies in its innovative approach to the incorporation of smallholders into a commercial market whereby smallholders have equity in the project rather than merely a production role as in a traditional outgrower model. Unlike the only other existing smallholder-owned sugar company in Zambia, Kaleya Smallholder Company Ltd, affiliated to Zambia Sugar plc, the establishment of the Chiansi scheme is significantly more complex as it involves land ownership (or occupancy) to equity transfer in order for the project to take place. There are multiple issues around the development of Chiansi that could have implications for other large scale water management and irrigation schemes involving commercial and smallholder farming systems. Due to its work at Chiansi, PROFIT has been approached for technical input by two other donors investigating such models.

The project is currently being presented to potential debt and equity partners, and USAID/Zambia, with PROFIT's assistance, is investigating the possibilities of utilizing a DCA guarantee facility to assist in the financing package.

The intention of the project is to begin planting the first sugar crop in early 2008, assuming the first phase of financing is in place. Before this takes place, there is considerable work to be undertaken in the organization and structure of the smallholder-owned entity. Since March, PROFIT has provided logistical support to a key community leader responsible for mobilizing local support for the project that intends to involve approximately 800ha of smallholder production out of a project total of 1,200ha. The direct result of his work is that sufficient community mobilization and enthusiasm has been achieved to ensure that the first phase of development will take place on a 400ha smallholder site.

Following on from the initial work conducted last quarter by PROFIT in investigating the potential of differentiated sugar markets and production organizational structures acceptable to these markets, Infraco, the project developers, have requested further assistance from PROFIT in determining the development and structure of the smallholder entity. To this end, during the quarter, PROFIT conducted an in-depth social and economic survey of the intended site of the project and the current inhabitants and owners to determine numbers of 'affected' farmers and the size and structure of potential equity contributions. The Chinyanya site, of over 400ha, comprises lands under individual title to 120 smallholders, making such a structure relatively straightforward. However, the Chikupi site, of similar size, presents much more complex land tenure issues, and the PROFIT survey was curtailed in this area due to confusion and mistrust of the project's intentions due to smallholder land alienation issues during the development of a neighboring commercial sugar plantation.

Late in the quarter, PROFIT and Infraco defined a major role for PROFIT in the development process, being the principle point of contact for all smallholder organizational issues going forwards, involving mediating in land tenure issues between the farmers, Ministry of Lands and the project and developing the commercial structure of the smallholder sugar producing entity.

### **Challenges**

- A lack of commitment to a long term smallholder production base supplying Freshpikt has delayed progress in developing contractual relationships in the fresh vegetable sector
- Mixed signals regarding ZOECO's strategy regarding empty bag distribution, crop aggregation, crop collection and payment and the role of agents delayed the paprika crop collection process and placed the crop at risk of sale to other buyers.
- Confusion over the fate of African Spices has set back the development of a strong commercial outgrower base, but with a clear direction now, it is hoped that momentum can be regained.
- Complex land tenure issues and smallholder concerns over land alienation may hold back development of the second phase of the Chiansi Scheme and if they continue, would have implications for the viability of the scheme as a whole.

### **Activities for Next Quarter**

- Continue to assist Freshpikt in defining the role of smallholders in supplying the company with a view to a pilot contractual process during the 2007 dry season.
- Ensure that ZOECO uphold their commitments to purchase paprika which will have a significant effect on farmer motivation to plant a crop during the next season
- Work with ZOECO to issue seed through agents for the 2007 planting season and work to incorporate third party input suppliers into the process

- Step up involvement in the field in the development of the smallholder component of the Chiansi sugar scheme, through working with the developers, financiers and communities to determine the best course of action for the establishment of the smallholder commercial entity/entities, to continue research into the potential for differentiated markets for the smallholder produced sugar and to begin training and mentoring a long term PROFIT-supported advisor to the project once the project has been established

## **FINANCIAL SERVICES**

During the quarter PROFIT began to gain traction with its financial services market strategy. PROFIT moved to link a leasing agent to a range of tillage service providers to assist them in locating financing options. The leasing agent met with ten potential tillage service providers to go over application requirements. The ten providers also met with a few equipment dealers to go over equipment options and costs. Of the ten, four providers prepared applications for the leasing agent to assess.

PROFIT also facilitated a link between the leasing agent and the National Commercial Bank including the new partial owner Rabo Bank, and to the State Insurance Company. PROFIT hopes to facilitate improved incentives via the leasing agent to push financing options to smallholders and service providers.

PROFIT finalized the design and launched its technical assistance fund for financial service providers. Over forty organizations received the solicitation document, including firms providing value chain finance and alternative financing option such as equity and private debt placements. PROFIT will decide on the first set firms to receive technical assistance during the next quarter.

PROFIT has experienced a slow down with Zambian Institute of Banking and Financial Services (ZIBFS). ZIBFS has not conducted the necessary market research to assure commercial viability of the training programs. As a result, PROFIT will wait until ZIBFS shows its commitment to making the training product commercially viable before it will commit to bringing in a bank training professional to design the trainings.

PROFIT has continued its work with the Agribusiness Forum (ABF) to improve awareness of financing options among agribusinesses. During the quarter, PROFIT co-hosted with the ABF three events to highlight alternatives that included discussions of commercial paper for short term financing needs, private placement of bonds for longer-term debt needs, and equity placements. PROFIT will continue to work with ABF to bring various financial service providers and agribusinesses together. If alternative financing options such as the options being facilitated begin to show their promise additional competitive pressure will mount on banks to compete for agribusiness clients or loose out to more customer oriented financial services firms.

PROFIT met with and agreed to on-going coordination with the National Commercial Bank, including the Rabo Bank transition team. The transition team was keen to work with PROFIT on a range of efforts including assessing PROFIT clients, assisting PROFIT on the warehouse receipts program, and facilitating improved access to leasing products for service providers.

PROFIT continued to discuss cattle insurance with various insurance companies. During the quarter, Zambian State Insurance decided to reengage in the smallholder cattle insurance market. PROFIT linked them to communities in Chongwe and Mazabuka.

### **Challenges**

- Banking sector is reluctant to engage in the necessary upgrading resulting in limited internal capacity among banks to perform proper analysis
- Weakness in alternative financial services markets including bond and equity markets

### **Activities Planned For Next Quarter**

- Assess proposals and decide on first bank technical assistance efforts
- Assist firms and alternative financial services firms in negotiating and finalizing deals for commercial paper and private placements of debt and equity
- Continue to assist ABF in presenting its series of financing events with the next on equity finance
- Assess additional value chain financing options
- Continue working with Banks to identify lending opportunities with lead firms, SMEs, and farmer groups
- Facilitate additional leasing deals via leasing agents for larger equipment

## **NON POLICY ENABLING ENVIRONMENT**

### **Overview**

PROFIT's main strategic goals in the implementation of program activities are the improvement of inter-firm relationships and cooperation within the industries in which the program works, and the development and improved functioning of critically important support markets.

The third objective is the improvement of the non-policy enabling environment in which program interventions would lead to greater confidence and credibility in agricultural market mechanisms. To a great extent, rural markets at present are defined by limited market/price information, knowledge-based decision making, asymmetric transactions, and predatory behavior. These factors put the smallholder sector at a significant disadvantage and limit its ability to upgrade and integrate into commercial markets to the benefit of all players. However, lack of confidence, stability and credibility in the marketplace is also detrimental to agricultural growth in general as it involves higher risk of market participation. This inevitably leads to a tendency towards short term decision making behavior and margin maximization at the expense of longer term, volume-based market behavior that would be beneficial to broader and deeper agricultural industry growth.

In Zambia, one of the major limitations to such growth, and a leading contributor to market risk is the unpredictable involvement of the state in agricultural markets. PROFIT, through its work in the agricultural inputs and veterinary sectors, is attempting to demonstrate that private sector mechanisms are capable of engaging the smallholder sector to mutual benefit, and that state involvement stifles rather than benefits the smallholder economy by crowding out the private sector. It is hoped that successful demonstration by PROFIT of functioning models of private sector service delivery can, over the medium term, lead to policy changes championed by USAID and its policy-based partners.

Aware that improvements in the policy environment are long term goals and its role in these is only indirect, PROFIT sees that there is an important role for the program in improving the non-policy enabling environment for the improved competitiveness of the industries in which PROFIT works, and that of the broader agricultural economy

PROFIT is working in this sector primarily through three grantees.

### **Zambia National Farmers Union**

The ZNFU occupies a unique position in the agricultural 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 coverage. PROFIT, through a financial and technical assistance package, is working with the Union to develop its capacity to take advantage of this position to exert its 'moral' influence over rural markets. In doing so, PROFIT is steering the Union away from market participation (a

temptation at district level for income generation) as this will severely jeopardize the independence required to perform the more critical roles of market facilitation and confidence building.

The main thrusts of the PROFIT programme are as follows:

#### Market Information

Traditionally, rural Zambia has been characterised by poor price discovery mechanisms that place control of the market in the hands of the buyers and commodity traders, often to the detriment of the producers. Recent and dramatic advances in mobile phone coverage into large areas of rural Zambia have opened significant opportunities for small businesses to access real-time price information at an affordable cost. The ZNFU has recently established a pioneering trade information system utilising, for the first time in Zambia, SMS technology that links producers with local and national markets. The system is simple to use and upon dialing in, provides commodity prices and contact information for over 200 buyers located around the country. PROFIT is supporting the administrative costs of the system until it achieves financial sustainability. The system and an internet-based information centre also funded by PROFIT were officially opened during the quarter by the President at an opening event for the new ZNFU Head Office in Lusaka.

#### Market Assurance

In a market characterized by mistrust, lack of transparency and consequent high cost, there is a need for some form of quality assurance for the service providers that are essential for the efficient operation of the rural economy. The ZNFU is well placed to provide a certifying service with local oversight over the quality of service provided. However, no activities under this component of the program were conducted during the quarter.

#### Market Stimulation

One of the key components of the PROFIT/ZNFU program is to establish commercially oriented trade fairs where local input suppliers, marketing entities and service providers are invited to promote themselves and offer demonstrations of products and services etc to an audience of farmers, all under the auspices of the District Farmers Association. The information exchange and personal interaction between buyers and sellers and service providers and clients has been demonstrated in other countries to have a significant effect on levels of economic activity and market confidence, yet play no role in the Zambian rural economy at all. Once demonstration of these events is successful, they should become income generating events for the DFAs, and it is intended to incorporate livestock auctions into these events at a later date.

During the quarter, the first trade show was held in Chongwe District, and attracted eleven major input suppliers and over 400 participants. The commercial message was diluted slightly by its integration into the government-led District Show, but overall it

was deemed a success and the responsible DFA made a small profit from the event. Useful lessons can be learnt and utilized in future events.

### Market Mediation

A lack of any logical course of action in commercial disputes outside a cumbersome and frustrating legal system is another constraint to the development of stronger commercial ties between the commercial and smallholder sectors. The independent and well respected status of the ZNFU at both national and regional level makes it a suitable body for providing some level of mediation, but formal skills training in this regard has never been undertaken. To this end, PROFIT and ZNFU, with an international mediation trainer, conducted a week long training program in April aimed at Union Provincial Chairmen, Agribusiness Managers and Head Office Staff. The trainees were given the necessary skills to provide a quickly and easily accessible forum for disputing parties that is an alternative to unilateral action or recourse to the court system, enable the parties to retain their own problem solving and decision making roles and ensure that decisions are made with realistic and credible information.

The training was conducted in coordination with Zambia Arbitration Center. While the ZNFU and PROFIT will continue to coordinate with the Arbitration Center, ZNFU mediation services will be more informal and focus on disputes before they get to a point of litigation. As a result, ZNFU mediation services will focus on building more effective commercial relationships as oppose to settling disputes. It is important to limit the direct ties to the court system that would likely limit smallholders from utilizing the services. Mediation services will also be tied to other information services on negotiations and contracts.

The second phase of the process is to pilot mediation services. PROFIT worked with ZNFU during the quarter to define a workplan for the pilot. The pilots will take place in Monze, Choma, and Mumbwa. ZNFU's Agribusiness Manager in each of these areas will be responsible for implementing the workplan with support and assistance from PROFIT. The pilots will be launched early in the next quarter.

### **Zambia Agricultural Commodities Exchange**

The agricultural commodities market in Zambia faces a multitude of market imperfections that stifle growth in the wider agricultural sector. Among these issues are poor market information/intelligence, poorly defined industry-wide quality standards, low levels of transparency and trust, limited enforceable contracts/dispute resolution mechanism and high transaction costs associated with quality variations, and the physical movement of goods. There is considerable demand by the majority of stakeholders in the agricultural sector for some form of formalised market mechanism that can address these issues, and it is on this basis that the idea of a Zambian commodities exchange was first mooted.

Agricultural commodity exchanges have greatly improved trading practices in several African countries and have brought more formality to trading methods, enhancing market transparency and acting as catalysts for increased agricultural trade. Excluding the sophisticated South African commodities exchange (SAFEX) that now trades more in derivatives than actual transactions, a regional example of success is the Zimbabwe Agricultural Commodity Exchange, that increased trading volumes from US\$1.1 million in 1994 to US\$677 million in 2001, based on a strong perception of integrity in the marketplace.

PROFIT believes that such an exchange, if run effectively and on a commercial basis, would play a critical role in the development of Zambia's commodity markets, and essential if that development is to bring broad and deep benefits across the industry.

Early in the quarter, it became apparent that the Zambian Agricultural Commodities Agency, the institution managing the warehouse receipt system, was crippled by managerial, financial and operational problems, and therefore PROFIT was unable to follow through with its support to the Agency. This coincided with a meeting with Agricultural Commodities Exchange for Africa (ACE), a non-profit, regional exchange situated in Malawi, which offered assistance in establishing a commodities exchange that could house, and expand the warehouse receipt system. In conjunction with the agricultural trading sector, PROFIT began working on designing a Zambian exchange, affiliated to ACE and utilizing the existing ACE trading platform software, rules and regulations. The result has been the establishment of ZAMACE, a Zambian registered non-profit corporate entity, owned, managed and self-regulated by the agricultural industry, operating under a regulatory structure governed by the Securities and Exchange Commission.

The objectives of the Exchange are as follows:

- To establish an electronic exchange to facilitate rapid and transparent transactions for agricultural commodities.
- To provide a credible, certified warehouse receipt service which will include regular inspection and certification of storage facilities and the maintenance of a warehouse receipt registry to allow the transparent knowledge of and transfer of receipts between broker members of ZAMACE.
- To become the independent standards and grades facility for the industry and facilitator of an arbitration process for disagreements within the system, with an independent grain testing laboratory
- To have broad representation of brokers, traders, farmers and food processors included in the governance of the entity.
- To have a small management and service provision team to ensure the commodity exchange functions and the affiliated warehouse receipt program is maintained at a high level of quality and credibility

Achievements during this quarter have been:

- A Strategic Planning exercise was conducted with the assistance of an international consultant during which potential stakeholder opinions and interests were incorporated into a rapid start-up plan
- A three day training of potential brokers and ZAMACE management was conducted by ACE
- The necessary rules, regulations and documentation to operate the Exchange were purchased from ACE
- The company was registered with the Registrar of Companies and the application for the Exchange license was submitted to the Securities and Exchange Commission
- The inaugural board meeting was held in June during which the Chairman was elected and management committees constituted.
- A PROFIT grant contract was drafted and signed facilitating a two year financial and technical assistance package while the company becomes financially self-sustainable.
- A comprehensive grain testing laboratory was transferred from ZACA to ZAMACE, allowing the company to offer an independent grain quality testing service.

### **Vet Lab**

A key constraint to the emergence and sustained growth in the private veterinary industry has been the lack of any privately-managed, publicly accessible diagnostic veterinary laboratory in Zambia. Samples have traditionally been sent to South Africa or Europe, which increases the risk of delays causing samples to become unusable, and an inability to conduct timely diagnosis that could save animal lives and reduce income loss. Critically, the process is also expensive, and puts such diagnosis beyond the reach of smallholder farmers.

PROFIT believes that addressing this constraint is critical to support the fledgling private veterinary industry. Establishing a body that not only is capable of efficient, cost effective and timely diagnosis, but a generator of local knowledge regarding local disease issues and a disseminator of that knowledge contributes significantly to the ability of the industry to solve its own problems. The key to the development of the livestock industry through increased productivity is disease control, and a robust diagnostic service is the primary tool in disease control.

Through a grant to a partnership of private veterinary companies and poultry companies, PROFIT is supporting the establishment of a private, for-profit laboratory providing commercial diagnostic services to commercial and smallholder farmers and private vets. 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. Once the commercial viability of the company has been established, the laboratory will initiate services for the cattle

industry, and over time, payments will be made into a fund designed to ensure the diagnostic and disease control issues related to smallholder livestock production are addressed.

The majority of the equipment needed for the laboratory to function was installed in March and staff were also recruited and given primary training by the suppliers of the equipment during the previous quarter. During the reporting period, final equipment installation was completed, and extensive trials were conducted to ensure reliability of the equipment and the capacity of the staff to manage it. Commercial diagnostic services were initiated in June (in post mortem, serology, bacteriology and water testing), and the laboratory was also officially launched by the Director of the Veterinary Department in June, after which a seminar was conducted for veterinary service providers, pharmaceutical supplier and poultry farmers.

### **Challenges**

- The key challenge to PROFIT involving the ZNFU grant is to ensure ownership of the development of the market confidence and credibility building process by the Union. With such a potentially high return at stake, PROFIT has dedicated one senior member of staff to the ZNFU grant, but the Union needs to take responsibility for 'their' program.
- The pilot trade fair in Chongwe was hindered partially by the involvement of the government, and a key lesson going forwards is to ensure separation between future trade fairs and government-run shows and other public occasions
- Timing on the establishment of the ZAMACE trading platform is critical if credibility in the market place is to be generated.

### **Activities Planned for Next Quarter**

- Continuation of the roll out of the mediation program within the local offices of the ZNFU
- Organization of the next round of pre-planting trade fairs incorporating the lessons learnt during the pilot phase.
- The establishment of the ZAMACE trading platform
- The initiation of the ZAMACE warehouse receipt program

## **MARKET SCANNING**

### **Overview**

PROFIT continued to use a range of tools to scan various markets for strategic opportunities. As volumes begin to grow on the newly formed exchange, a range of opportunities that could be extended to smallholders will emerge. PROFIT will be monitoring volumes and trends to identify such opportunities and move on them. PROFIT continues to assess biofuels, but no specific opportunity has emerged. PROFIT also continues to scan horticulture opportunities, but as with biofuels no serious opportunities have emerged.

### **Activities Planned For Next Quarter**

- Continue general market scanning activities

## GRANTS MANAGEMENT UNIT

### GRANTS

#### Overview

The quarter saw significant activity in the PROFIT grants programme. All active Innovations Grants progressed well, with the two ICT grants completing their programmes. Activities started on the major ZNFU grant on a number of fronts, including the first trade fair and a large mediation skills training. The two dairy grant contracts are in the final stages of completion with activities scheduled to commence early next quarter. Perhaps the most significant progression has been the evolution of the prospective grant to ZACA into a grant to ZAMACE. Due to financial, managerial and operational weaknesses within ZACA, it no longer was viable for PROFIT to continue looking to support the Agency. However, it has always been PROFIT's intention to maintain support to the warehouse receipt system, and over the quarter, PROFIT, in conjunction with the private sector, established a commodities exchange (ZAMACE), that would house the warehouse receipt system within the context of a formal market structure.

#### Strategic Partner Grants

<b>Conservation Farming Unit</b>	
<b>Duration</b>	January 2006 to July 2008
<b>Financials:</b>	Total Budget: \$748,000 Expenditure to date: \$326,000
<b>Goal:</b>	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. An additional goal is to embed conservation farming skills and technology into the agricultural retail sector.
<b>Activities:</b>	<p>During the quarter the CFU achieved the following:</p> <ul style="list-style-type: none"> <li>• 200 Farmer Coordinators trained in Training Session 4</li> <li>• Significant emphasis has been placed on developing a range of simple, but effective, training materials for farmers. This has included the development of laminated information leaflets, each of which addresses a different aspect of Conservation Farming and Conservation Agriculture relevant to the farmers within this programme</li> <li>• In line with the new focus of the CFU grant, considerable progress was made on plans to enable the commercialisation of conservation farming equipment in the four programme regions. A supplier of Chaka Hoes and Magoye Rippers was identified in Zimbabwe, and 30,000 Chaka Hoes and 4,000 Magoye Rippers are currently being manufactured, according to specifications agreed with CFU. These will be available for purchase by input suppliers through ZAMAC in August 2007</li> <li>• CFU made a presentation to four of Lusaka's major agricultural input retailers in order to raise awareness of the need for the availability of CF equipment in rural areas. This has led to the development of working relationships at Lusaka and regional levels</li> <li>• Training of retail agents has already commenced and CFU staff have trained a</li> </ul>

	<p>total of 26 retail agents under CROPPACK.</p> <ul style="list-style-type: none"> <li>CFU has procured two sets of tractor mounted ripping equipment that will be used to demonstrate ripping to contract tillage service providers in order to promote the concept of contract ripping, rather than contract ploughing</li> </ul>
<b>Outlook for Next Quarter:</b>	<ul style="list-style-type: none"> <li>Training of field staff, 200 Farmer Coordinators, 2,000 Contact Farmers and 60,000 Associated Farmers in the content of Training Period 1</li> <li>Sensitisation of primary retailers in programme areas regarding the roll out of conservation farming equipment and the benefits of CF;</li> <li>Training of selected rural retail agents and tillage service providers in the basics of CF;</li> <li>Distribution of incentive packs to all Farmer Coordinators and Contact Farmers</li> </ul>

<b>Agribusiness Forum</b>	
<b>Duration</b>	June 2006 to March 2009
<b>Financials:</b>	Total Budget: \$248,000 Expenditure to date: \$70,000
<b>Goal:</b>	To provide a level of support to the Agribusiness Forum to establish itself as an 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.
<b>Activities:</b>	<p>Activities during the quarter included:</p> <ul style="list-style-type: none"> <li>A round table forum facilitated by an international agribusiness consultant was held, with discussion around the constraints of engaging large numbers of smallholders as a production base, drawing on possible solutions found in differing international models.</li> <li>A paper outlining the financial needs of the outgrower and agribusiness industry was compiled during the quarter, and presented to a large number of financial institutions for their feedback.</li> <li>As a result of this, three discussion fora were held bringing together agribusiness, outgrower scheme operators and commercial input providers, and financial institutions (Zambia State Insurance Corporation, African Banking Corporation, Africa Life). All were well attended.</li> </ul>
<b>Outlook for Next Quarter:</b>	<ul style="list-style-type: none"> <li>Finalisation of the financial services provider database</li> <li>Participation in the Bio-fuels Association of Zambia discussions on the future of jatropha</li> <li>Continuation of the meeting schedule bringing together financial service providers and agribusiness</li> </ul>

<b>Zambia National Farmers Union</b>	
<b>Duration</b>	October 2006 to September 2009
<b>Financials:</b>	Total Budget: \$490,000 Expenditure to date: \$64,000
<b>Goal:</b>	<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 are concentrated on:</p> <ol style="list-style-type: none"> <li>stimulating rural input and output markets through the establishment of commercially run trade fairs and livestock auctions,</li> <li>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</li> </ol>

	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
<b>Activities:</b>	Major activities were started during the quarter including: a) A week-long training of senior managers was completed in April designed to develop the capacity of staff within the Union at Head Office and district level to mediate in disputes and negotiations within the agricultural industry. The training was conducted by two international consultants and is being reinforced by PROFIT and ZNFU staff. b) The first pilot trade fair was conducted in Chongwe, which 11 major input suppliers and over 400 farmers attended. The commercially-orientated concept, the first of its kind in the local agricultural market, was deemed a success by both exhibitors and attendees. c) The ZNFU Head Office electronic library and information centre were installed and these facilities, and the SMS Trade Information system also supported by PROFIT were officially opened by the President in June. d) A key meeting was held in June bringing together all the major stakeholders in the cotton sector to highlight the problems of pirate buying and side-selling. The Minister of Agriculture and Cooperatives, Ben Kapita, launched a campaign supported by PROFIT against these practices that threaten the viability of the cotton industry.
<b>Outlook for Next Quarter:</b>	

<b>Africa Parks</b>	
<b>Details:</b>	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
<b>Goal:</b>	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.
<b>Activities:</b>	During the quarter, the PROFIT/AP team achieved the following: <b>a) Livestock:</b> 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. While initial progress was slow, momentum is slowly picking up. <ul style="list-style-type: none"> <li>• The service delivery for the first signed contract between vet and community began in April 2007 for 46 animals.</li> <li>• Another group of farmers from the same area signed the contract as of end of June, to increase the number of cattle on the contract to approximately 100 animal, though the community is still signing up more farmers to meet the minimum required number of 150.</li> <li>• Farmers in three other communities were engaged to the point where contracts should be signed during the next quarter.</li> </ul> <b>b) Tourism:</b> The benefits of tourism to the communities in the Liuwa area are limited while visitor numbers remain low (under 400 visitors in 2006). The PROFIT team has taken a holistic approach to tourism in the area, assisting in the promotion of Liuwa as a destination, increasing community participation and starting to increase value addition through facilitating the development of products such as a cultural museum and visitors centre.

	<ul style="list-style-type: none"> <li>• The PROFIT team worked closely with the campsite management teams to design and implement a new management structure as well as products and services for the upcoming tourist season.</li> <li>• The contracts between campsite committees and attendants were signed, and a new compensation package with incentives is in place.</li> <li>• Campsites' shops are already partly stocked with new crafts from local producers.</li> <li>• New campsite (Sikale) in the north opened at the end of June, managed by Mutaa community, bringing the number of community campsites to five</li> <li>• The marketing campaign executed by AP with PROFIT assistance is under way, with some tangible results already achieved (printed articles in magazines, promotional DVD developed and links with tour operators being established).</li> <li>• The construction of the new visitor centre in Kalabo is under way to be completed in July. The centre will also include a small craft shop to be supplied by craft producers from Liuwa.</li> <li>• The land for Kalabo Campsite &amp; Liuwa Museum has been identified. And key stakeholders are scheduled to visit Kalabo in early July to decide on next steps.</li> </ul> <p><b>c) Entrepreneurship and Business Development:</b> The PROFIT team continued advising women on craft production and linking strong relationships with the community campsites, which are currently their main customers. PROFIT also worked with other talented individual craft producers in Kalabo, advising them on product assortment, and linking them to campsite shops.</p> <p><b>d) Agriculture:</b> A study conducted by PROFIT in the previous quarter showed that significant improvements could be made to productivity in the rice sector, that plays a major role in the rural economy to the north of Liuwa Plain, through intensification of production, economies of scale in transport utilization and greater exploration of the huge price swings evident in the local rice market. With the assistance of the Conservation Farming Unit, PROFIT conducted a 10 day training in three areas based on improving the planning and precision involved in rice farming, and introducing the benefits of ripping as a form of minimum tillage. Besides training farmers, PROFIT also trained 12 potential ripping service providers, and an input supplier from Kalabo participated in the training to become familiar with the ripping technology, with the intention of promoting and selling the equipment involved.</p>
<b>Outlook for Next Quarter:</b>	<p><b>a) Livestock:</b> The focus will be on scaling up the current herd contract, and facilitating the signing of three new contracts.</p> <p><b>b) Tourism:</b> Emphasis will be on ensuring the campsites and other community-related tourism products are ready for the tourist season, and opening the visitors centre and shop</p> <p><b>c) Agriculture:</b> Plans for other short trainings by PROFIT of farmers and potential service providers have been made to roll out awareness of the new rice production technologies and model to other areas around Liuwa</p>

<b>Zambian Agricultural Commodities Exchange</b>	
<b>Duration</b>	April 2007 to February 2009
<b>Financials:</b>	Total Budget: \$600,000 Expenditure to date: \$0
<b>Goal:</b>	To establish a commercially viable Agricultural Commodity Exchange, facilitating transparent, competitive and efficient marketing and trade in agricultural commodities in Zambian, regional and international markets, supported by a warehouse receipts and certification system to enhance market access, liquidity and credibility in the Zambian commodities market. The PROFIT grant aims to provide financial and technical support to the Exchange during its establishment as a commercially-

	grounded entity capable of financial viability.
<b>Activities:</b>	The Exchange was conceived early in the quarter, and start-up activities included: <b>a)</b> A Strategic Planning exercise was conducted with the assistance of an international consultant during which potential stakeholder opinions and interests were incorporated into a rapid start-up plan <b>b)</b> A three day training of potential brokers and ZAMACE management was conducted by Agricultural Commodities Exchange for Africa (ACE), to which ZAMACE is affiliated. The senior management team had been recruited through PROFIT's previous work with ZACA <b>c)</b> Office accommodation for ZAMACE was sourced, and the non-profit company limited by shares was incorporated <b>d)</b> The inaugural board meeting was held in June during which the Chairman was elected and management committees constituted.
<b>Outlook for Next Quarter:</b>	With the company established and a board of directors constituted, the next quarter will see the actual establishment of the local trading platform and the start of trading on the Exchange in order to test the system during the current maize and soya marketing season. There will also be a need for an awareness and marketing campaign in the commercial and smallholder communities.

<b>Dairy Industry Development Programme (pending)</b>	
<b>Details:</b>	The \$3m Dairy Directive funding was competitively tendered in the last quarter of 2006, and evaluations were completed in January 2007. The two applications that satisfied all tender requirements did not follow the PROFIT methodology as specified in the RFA, and both applicants were invited to resubmit proposals. Satisfactory proposals and budgets were submitted and approved in May 2007. Grant contracts are to be drawn up and signed early in the next quarter.
<b>Goal:</b>	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
<b>Activities:</b>	Scopes of work were drawn up and approved for the following implementing partners: <b>a)</b> Land O Lakes, will specialise at the processor and retail levels on development of standards, local and export marketing and promotion and value addition <b>b)</b> Scan Agri is a firm working globally in the livestock and dairy industries, and will implement PROFIT's support market development, on-farm production improvement and market linkage components.
<b>Outlook for Next Quarter:</b>	The contract for Scan Agri is at an advanced stage and will be signed in July 2007. With the arrival of the main consultant in country during that month, activities will commence immediately. By the end of the quarter, PROFIT was still awaiting the final revised budget from Land o Lakes, and once this has been submitted, the contract will be drawn up. Activities will commence during the next quarter.

## **Innovations Grants**

<b>Forest Fruits Limited</b>	
<b>Duration</b>	November 2006 to October 2009
<b>Financials:</b>	Total Budget: \$100,000 Expenditure to date: \$89,000
<b>Goal:</b>	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
<b>Activities:</b>	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.
<b>Outlook for Next Quarter:</b>	

<b>Kalahari Natural Oils Limited</b>	
<b>Duration</b>	March 2007 to March 2008
<b>Financials:</b>	Total Budget: \$45,000 Expenditure to date: \$33,000
<b>Goal:</b>	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.
<b>Activities:</b>	<p>Full programme activities commenced in April.</p> <ul style="list-style-type: none"> <li>• 23 tons of mungongo nuts have been bought from suppliers in Southern and Western Provinces, at a total value of \$30,000, and 50 litres of oil is being processed per day, mainly to supply the local cosmetics market. Current estimations point to a potential supply of 20-25 tons per month</li> <li>• The basic processing equipment was all procured during the quarter, and issued to the supplying communities. The basic nut cracking equipment has made a significant difference to the speed of processing, and each woman is able to crack 5kg per day. The improved crackers are also being utilized, although some fine tuning is required in their manufacture to prevent damage to the kernels.</li> <li>• Export markets are being sought, but a major buyer has recently dropped their order which has set back export plans</li> <li>• Mapping of the forest areas eligible for organic certification has begun</li> </ul>
<b>Outlook for Next Quarter:</b>	The major activity during the next quarter will be the organic certification process, through ECOCERT of South Africa. Mapping software will be procured and work will begin on the GIS-based management system in July.

<b>Veterinary Laboratory</b>	
<b>Duration</b>	January 2007 to December 2008
<b>Financials:</b>	Total Budget: \$45,000 Expenditure to date: \$42,000
<b>Goal:</b>	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
<b>Activities:</b>	<p>Achievements during the quarter include:</p> <ul style="list-style-type: none"> <li>• Commissioning of the laboratory, which is now fully operational and offering both serology and bacteriology tests in poultry. Water testing which was earmarked for 2008 has commenced earlier than planned.</li> <li>• The post mortem facility is available and bacteriology tests have been done based on these. The through put of samples is low mainly due to low incidence of diseases during this period.</li> <li>• The Laboratory was officially opened by The Director of Veterinary Services on the 26<sup>th</sup> of June 2007 and attended by key players in the livestock industry</li> </ul>

	<ul style="list-style-type: none"> <li>The laboratory conducted business worth over \$9,000 during the quarter, which is lower than expected but it is anticipated that with increased marketing this will improve.</li> </ul>
<b>Outlook for Next Quarter:</b>	The major activities to be conducted during the next quarter is the start of a milk testing facility that has been requested by farmers and vets, and also a major marketing campaign to generate business for the laboratory.

<b>Africonnect SMS System</b>	
<b>Duration</b>	December 2006 to November 2008
<b>Financials:</b>	Total Budget: \$42,000 Expenditure to date: \$30,000
<b>Goal:</b>	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.
<b>Activities:</b>	Over the quarter, delays in accessing the necessary information from Cropserve necessary for the population of the website and the content of the SMS based customer service platform have delayed the launch of the project. Production of the marketing material for the launch has subsequently been delayed. However, training in the management of the SMS system and the website have been conducted, and the VSAT communication link at the Cropserve Choma office has been installed.
<b>Outlook for Next Quarter:</b>	The communication systems will be finalized and launched during the next quarter, and a marketing campaign conducted to promote the service.

<b>Savannacom SMS System</b>	
<b>Duration</b>	December 2006 to December 2008
<b>Financials:</b>	Total Budget: \$50,000 Expenditure to date: \$45,000
<b>Goal:</b>	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.
<b>Activities:</b>	Activity during the quarter focused on the development of the application, with the system for order management from the agent network completed and tested, and all retailer interfaces related to store management and order and inventory management completed and tested. A study trip to Kenya to learn about the M-PESA electronic, mobile phone based money transfer system was conducted to learn from the experiences of this established system in the design and implementation of the savannacom v-cash payment system,
<b>Outlook for Next Quarter:</b>	Testing of the full system will completed during July 2007, and training of Croppak agents in the utilization of the system will also be conducted during July. It is intended that the project will be commissioned at the end of July and the grant activities will have been completed.

<b>Ecolift/Mukuni Development Trust (pending)</b>	
<b>Details:</b>	The grant of approximately \$50,000 over one year will be signed later in 2007 subject to negotiation
<b>Goal:</b>	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
<b>Activities:</b>	Early in the year, the Mukuni Development Trust established a for-profit company, which was a significant first step towards formulating a grant. Since then, however, both Mukuni and Ecolift have not progressed further in their relationship, so there was little activity during the quarter.
<b>Outlook for Next Quarter:</b>	PROFIT will engage a consultant to meet with the two parties to conduct a more in depth assessment of the process and to ascertain whether the establishment of the private company is still a feasible option

#### **Activities Planned For Next Quarter**

- Conclude the two ICT Innovation Grant activities
- Sign both Dairy Industry Development Programme grants and work with Scan Agri and Land O Lakes on their start-up activities.
- Hand over strategic management of ZAMACE to the new management team and the Board of Directors
- Continue to steer the Conservation Farming Unit towards developing the technical capacity of the agricultural input and service sectors, particularly in relation to mechanized minimum tillage services and herbicide utilisation
- Work with the ZNFU to maintain the momentum gained from the mediation training, and from the pilot trade fair to replicate the successes during the next round of pre-planting season trade fairs.
- Assess possibility of defining a grant for Zambia Institute Banking and Financial Services to develop commercial bank training products

## CROSS CUTTING ISSUES

**ICT:** PROFIT worked on three sets of ICT activities during the quarter. The first set of activities focused around facilitating SMS services at multiple levels. PROFIT is on the last stages of two SMS pilots for ag-input firms. The two ag-inputs firms are set to launch their systems during the next quarter. One system is focused on marketing and technical information. The other system is focused on inventory and order management. PROFIT is also working with another ICT firm to assist them in marketing it's off the self SMS management system. This system is better suited for smaller firms. The last SMS sub-activity is ZNFU's broad-based market information system. PROFIT provides support for the service and is assisting ZNFU transition the system to be financial viable through various sponsorship opportunities.

The second set of activities is defined around building an m-banking platform. PROFIT identified an interim commercial opportunity as a means to assure commercial viability, solve a range of critical constraints, and maximize local ownership of the m-banking system. The initial service focuses on payments to rural populations from cotton companies and is the final stages of design with initial live testing planned for early next quarter. The system integrates a range of local SMEs as 'cash dealers' where smallholders can transfer their m-funds for Kwacha or goods. The system will also integrate mobile phone airtime sales into the banking system as a means to make banks more relevant to smallholders, tied banks to the m-funds system, demonstrate to banks the value of m-banking services, and provide a foundation for a more robust platform.

Third set of activities are focused on fostering improved management of outgrower schemes by linking ICT firms with lead firms to develop effective management information systems. Many lead firms have severely limited management information and utilize minimal technology to rationalize their decision making. Working with an ICT firm PROFIT will foster the development of a basic database system that will be used by one lead firm and if proved valuable rolled out to other lead firms. The system will be offered on a service basis in order to limit initial costs/risks to lead firms, limit concerns on on-going management, foster further development, and increase the potential commercial viability of the service. The database was designed and is being installed for live testing, which will take place early the next quarter.

### Activities Planned For Next Quarter

- Continue to 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
- Continue to work with ZNFU on its broad-based ag-market information system

- Oversee the roll out of the m-funds services, review roll out and pilot live testing, and facilitate scale-up
- Continue to oversee the Great Lakes database design and roll out, and assess potential for roll out to other firms and/or additional development.

**Gender:**

PROFIT rolled out lessons learned from the previous internal reviews. In particular, staff targeted women networks to increase awareness of PROFIT activities in which women might benefit. Dr. Njouvo from Chongwe agreed to test services targeting traditionally women managed livestock including chickens and goats.

PROFIT will review changes in staff awareness building techniques and in vet services offered to determine the affect on women beneficiaries. Based on the review, PROFIT will foster further adoption within PROFIT and among other vets.

PROFIT will also gain additional insight into the secondary benefits at the household level from PROFIT activities, including benefits to women via the household evaluation that will twice a year. The first analysis will be finalized early in the next quarter.

**Activities Planned For Next Quarter**

- 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:**

PROFIT has reviewed its HIV activities and is reviewing two potential options. The first option is to identify another local subcontractor to take on these activities with closer integration into PROFIT main activities. The second option is to internalize these activities based on learning from regional experiences in Tanzania where EMG has integrated economic development activities into an HIV program. The second option would also seek to integrate the PROFIT HIV activities into a broader learning process to pilot a range of high potential activities.

**Comment [p1]:** For this part I think we can state that we have identified a local partner to carry out and manage our HIV activities and that a contract will be finalized at the start of this upcoming quarter.

**Activities Planned For Next Quarter**

- Assess and make final decision regarding HIV activities
- Roll out HIV activities and link to broader learning network on integrating HIV and economic development activities