



**USAID**  
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# Quarterly Report

## 3<sup>rd</sup> Quarter 2009

April to June 2009

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## ADMINISTRATIVE DATA

Country	Zambia
Project Title	Production, Finance and Technology (PROFIT)
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 1, 2005
MAARD Number	6110005.01-3-04073
Total Estimated Amount	\$ 17,549,830
Total Federal Funds Authorization	\$ 14,667,415
Appropriation	72 – 19X1030
BPC	GGAX-05-21611-1G13

## PROFIT 3<sup>RD</sup> QUARTER 2009 PMP INDICATOR TABLES

PROFIT INDICATORS		BASELINE	FY07		FY08		TARGET	FY 09			Year Total	
			TARGET	ACTUAL	TARGET	ACTUAL		Q1	Q2	Q3		
<b>Trade/Exports related indicators</b>												
1	Value of purchases from smallholders of targeted commodities (domestic agricultural trade)	\$46,870,313	\$51,674,520	\$25,737,563	\$54,258,246	\$41,637,131	\$56,971,159	\$1,253,573	\$499,196	\$424,913	\$2,177,682	
<b>Production/Sales/Value Addition related indicators</b>												
2	Value of Food and non Food Agricultural production by USAID supported groups.	\$5,523,455	\$7,001,270	\$10,352,500	\$7,341,334	\$29,929,001	\$7,698,400	\$551,603	\$488,786	\$424,913	\$1,465,302	
3	Value of sales of all goods and services	\$5,397,833	\$6,902,500	\$11,735,880	\$7,410,350	\$30,501,720	\$7,820,432	\$1,033,852	\$710,345	\$689,734	\$2,433,931	
4	Value of resources derived from sustainable natural resources or conservation initiatives.	\$714,978	\$865,123	\$4,564,154	\$951,635	\$435,492	\$1,046,799	\$7,016	\$0	\$0	\$7,016	
5	Value of production per unit disaggregated by commodity sector.	Cotton (ha)	\$163	\$190	\$347	\$205	\$220					
		Honey (hive)	\$4.44	\$4.90	\$6.08	\$5.14	\$5.40					
		Red meat (animal)	\$116	\$128	\$198.55	\$135	\$141					
		Dairy (animal)					\$865					
		High Value Crop - Pineapple (ha)	\$785	\$865	\$2,500	\$909	\$954					
6	Value of production per client	Cotton	\$192	\$212	\$640.81	\$222	\$233					
		Honey	\$35	\$39	\$61	\$41	\$43					
		Red meat	\$94	\$104	\$251.10	\$109	\$114					
		Dairy					\$4,323					
		High Value Crop - Pineapple	\$628	\$692	\$1,250	\$727	\$763					
7	Gross Margin per unit	Cotton (ha)	\$10	\$11.03	\$165.70	\$11.58	\$12					
		Honey (hive)	\$2.44	\$2.69	\$3.74	\$2.82	\$3					
		Red meat (animal)	\$7.11	\$8.60	\$191.88	\$9.03	\$9					
		Dairy (animal)					\$345					
		High Value Crop - Pineapple (ha)	\$547	\$603	\$1,958.34	\$633	\$665					
8	Volume of produce processed (mt)	Cotton	19,200	24,192	35,200	25,402	28,896	26,672	0	0	0	0
		Honey	347	437	15	459	299	482	280	0	0	280
		Red meat	0	255	171	510	235	1020	0	4.2	3.8	8
		Milk (Lts)				6,222,000	6,300,000	6,615,000	975,701	1,300,464	0	2,276,165
		High Value Crop - Pineapple	0	1,000	109	2,000	26	2500	50	0	0	50
<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	25,000	43,000	45,000	32,924	63,000	3,144	12	0	3,156
		Vet contract/herd management	0	1,000	672	2,000	6,297	2,500	799	1,081	794	2,674
		Contract production	37,500	65,000	44,635	75,000	254,254	80,000	106,100	0	0	106,100
		Improved honey production	0	750	0	1,000	7,246	1,250	4,000	0	0	4,000
		Input products and services	10,000	100,000	21,974	150,000	43,447	200,000	15,541	13,187	11,202	39,930
10	Area or number of commodities under improved technologies	Conservation farming (ha)	3,200	25,000	43,000	45,000	18,122	63,000	4,981	56	0	5,037
		Vet contract/herd management (hd)	0	10,000	7,780	20,000	19,546	25,000	8,973	14,589	8,083	31,645
		Contract production (ha)	32,000	60,000	43,015	70,000	109,016	75,000	136,050	0	0	136,050
		Improved honey production (hives/Q.C trainings)	0	1,500	0	2,000	37,725	2,250	32,000	0	0	32,000
		Input products and services (ha)	10,000	100,000	21,974	150,000	43,447	200,000	15,541	13,187	11,202	39,930
11	Improved technology adoption rate (%)	Conservation farming	10%	15%	15%	18%	20%	0%	0%	0%	0%	
		Vet contract/herd management	0%	55%	43%	80%	100%	40%	76%	20%		
		Contract production	25%	24%	15%	26%	28%	17%	0%	0%		
		Improved honey production	0%	10%	0%	15%	20%	13%	0%	0%		
		Input products and services	10%	15%	40%	20%	25%	98%	107%	34%		
12	Number of hectares under biodiversity conservation.	3,200	25,000	43,000	45,000	18,122	63,000	4,981	0	0	4,981	
13	Number of hectares under managed natural resource production systems	0	366,000	0	366,000	4,166,000	366,000	0	0	0	0	

PROFIT INDICATORS		BASELINE	FY07		FY08		TARGET	FY 09			Year Total	
			TARGET	ACTUAL	TARGET	ACTUAL		Q1	Q2	Q3		
<b>Finance related indicators</b>												
14	Value of finance/capital accessed by USAID assisted groups (borrowers)?	\$1,845,045	\$4,000,000	\$1,612,750	\$6,000,000	\$7,066,870	\$8,000,000	\$3,026,236	\$15,634	\$0	\$3,041,870	
15	Number of loans by USAID assisted institutions disaggregated by gender	Male		42,014		86,912		84,800	1	0	84,801	
		Female		1,028		21,727		21,200	0	0	21,200	
		<b>Total</b>	32,000	60,000	43,042	70,000	108,639	75,000	106,000	1	0	106,001
16	Percentage of the number of loans on schedule for repayment	90%	90%	50%	90%		90%	0%	0%	0%	0%	
17	Value of loans by USAID assisted institutions disaggregated by gender (lenders)?	Male	\$1,845,045	\$4,000,000	\$1,580,335		\$5,553,524		\$2,420,989	\$15,634	\$0	\$2,436,623
		Female			\$32,415		\$1,513,346		\$605,247	\$0	\$0	\$605,247
		<b>Total</b>			\$1,612,750	\$6,000,000	\$7,066,870	\$8,000,000	\$3,026,236	\$15,634	\$0	\$3,041,870
18	Percentage of the value of the lending portfolio on schedule for repayment	90%	90%	50%	90%		90%	0%	0%	0%	0%	
<b>BDS related indicators</b>												
19	Number of clients/entrepreneurs receiving BDS disaggregated by category e.g smallholder farmers, agribusiness firms	Small holder										
		Male					167,932		99,666	11,672	28,889	140,227
		Female					99,872		32,491	3,668	9,214	45,373
		<b>Total</b>	37,500	100,000	118,979	150,000	376,304	200,000	132,157	15,340	38,103	185,600
20	Number of farmers reached with extension/outreach services	Male						167,932	99,666	11,672	28,889	140,227
		Female						99,872	32,491	3,668	9,214	45,373
		<b>Total</b>	37,500	60,000	118,979	80,000	376,304	100,000	132,157	15,340	38,103	185,600
21	Number of people reached with HIV/AIDS A & B outreach programmes	Male	0	187,500	0		1,740		1,212	5,241	1,773	8,226
		Female					1,988		1,396	5,356	2,166	8,918
		<b>Total</b>				225,000	3,728	262,500	2,608	10,597	3,939	17,144
<b>Policy related indicators</b>												
22	Number of policy areas worked on or affected if any	0	0	0	0	4	0	4	3	1	6	
23	Policy progress milestones – Analysis, debate, submission, approval and implementation	0	0	0	0	4	0	2	3	1	6	
<b>Training related indicators (disaggregate by gender)</b>												
24	Number of people trained in	Agricultural production										
		Male					162,443		96,666	11,672	28,889	137,227
		Female					102,665		31,491	3,668	9,214	44,373
		<b>Total</b>	32,000	60,000	118,923	80,000	265,108	100,000	128,157	15,340	38,103	181,600
		Private sector growth	40,000	70,000	119,160	90,000	375,762	110,000	134,145	15,641	38,439	188,225
		Nat. Resource Mgmt & Conservation										
		Male					125,405		5,358	0	0	5,358
Female					69,423		1,786	0	0	1,786		
<b>Total</b>	5,500	6,000	11,000	7,000	194,828	8,000	7,144	0	0	7,144		

<b>USAID OPERATING PLAN INDICATORS</b>							
<b>2.2 Trade and Investment Capacity</b>	<b>FY 08 Target</b>	<b>FY 08 Year Total</b>	<b>FY 09 Target</b>	<b>FY 09 Q1 Actual</b>	<b>FY 09 Q2 Actual</b>	<b>FY 09 Q3 Actual</b>	<b>FY 09 Year Total</b>
1. Number of events held that provided training on topics related to improving the trade and investment capacity building	2,000	2,041	2,100	628	303	411	1,342
2. Number of Capacity_Building Service Providers receiving USG assistance	300	2,032	378	1,988	0	0	1,988
3. Number of firms receiving capacity building assistance to export	65,750	152,000	58,800	140,000	0	0	140,000
4. Number of USG participants USG supported trade and investment capacity building trainings	150,000	376,304	147,000	132,157	0	0	132,157
Male		167,932	125,000	99,666	0	0	99,666
Female		99,872	22,000	32,491	0	0	32,491
5. Total value of exports in targeted sectors in which firms are receiving USG assistance to increase their exports	\$10,000,000	\$44,854,983	\$45,000,000	\$112,000	\$0	\$0	\$112,000
<b>3.2 Financial Services</b>							
1. Number of financial sector professionals trained in international standards	71	76	75	143	0	0	143
Male	60	47	63	119	0	0	119
Female	11	29	12	24	0	0	24
2. Number of firms investing in improved technology as a result of USG assistance (SD)	23,000	24,991	23,000	15,541	13,187	11,202	39,930
3. Number of SMEs that successfully accessed bank loans or private equity as a result of USG assistance	59,100	0	59,100	0	0	0	0
<b>6.2 Agricultural Sector Productivity</b>							
1. Number of additional hectares under improved technologies or management practices as a result of USG assistance	23,000	24,991	23,000	15,541	13,187	11,202	39,930
3. Number of agriculture-related firms benefiting directly from interventions as a result of USG assistance	300	2,032	378	1,988	204	336	2,528
4. Number of individuals who have received short term agriculture sector productivity training with USG assistance	80,000	265,108	100,000	128,157	15,340	38,103	181,600
Male				96,666	11,672	28,889	137,227
Female				31,491	3,668	9,214	44,373
<b>7.3 Strengthen Micro-Enterprise Productivity</b>							
1. Number of micro enterprises participating in USG assisted value chains	100,000	152,111	100,000	128,157	15,340	38,103	181,600
Number of micro enterprises receiving business development services from USG assisted sources	140,000	152,246	140,000	140,000	0	0	140,000
<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	56,700	195,294	56,700	7,144	0	0	7,144
Male		125,405		5,358	0	0	5,358
Female		69,423		1,786	0	0	1,786

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## Project Highlights for the Quarter – 3rd Quarter 2009

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- Over the quarter, **the agent network across the country generated \$76, 681 worth of new sales**, representing a 200% increase in sales from the same quarter last year and demonstrating the growing ability of the agents to generate significant sales in 'off-peak' months.
- **289 In-Community Service Providers (ICSPs), including spray service providers, agents and sub-agents, were recruited and trained by the agricultural retail sector over the quarter**, despite this traditionally being a low period for agricultural input sales. This process is now entirely driven by the firms themselves, with no PROFIT involvement.
- The CropLife Zambia Secretariat, funded entirely from membership contributions, has continued to significantly expand its managerial and operational capacity. In recognition of this, **CropLife Zambia was recognised as 'The Most Improved Secretariat'** at the CropLife International Conference held in Namibia in June
- Supporting Dunavant's initiative to fully internalise the process of identifying, training and promoting spray and tillage contract service providers within their supply chain, **PROFIT designed a business training manual and conducted training-of-trainer courses for Dunavant** extension staff preceding a major roll-out of service provider training during the next quarter
- **Over 780 spray service providers in the cotton sector** were actively providing contract services to clients, signifying that the process of developing such services in the sector is now well entrenched.
- **A record \$3.9m of trades was conducted through ZAMACE** over the quarter signifying a 40% increase over last quarter, with growing recognition from millers and traders of the benefits of utilising the Exchange becoming apparent
- By the end of the quarter, **the certification process by ZAMACE of three district warehouses was almost complete**, with another two in the pipeline, facilitating for the first time, the ability of smallholders and emergent farmers to utilise the Exchange. A further 10 community sheds in Chongwe District had satisfied ZAMACE criteria for certification.
- After two years of PROFIT advocacy, there are strong signs that the **Ministry of Agriculture and Cooperatives (MACO) is preparing to review its role within the veterinary market**, and to this end, the Ministry has approached PROFIT to assisting in a review process of major legislation around regulation and oversight by the Ministry of Livestock.

- **Parmalat trained 367 dairy farmers** using the comprehensive Dairy Production Manual, designed and supported by PROFIT, demonstrating a keen interest in upgrading the production of their smallholder and emergent farmer suppliers.
- **Over 1.1m litres of milk were purchased by dairy processors from the smallholder sector** during the quarter. While this represents a reduction in volume from last quarter due to traditional supply constraints from the smallholder sector in the dry season, volumes are up 56% on the same quarter last year as processors continue to actively invest in their smallholder supply chain
- There has been **significant adoption by dairy farmers of silage and forage production techniques** which is an excellent example of increasing use of productivity-enhancing practices being adopted by farmers as a result of PROFIT facilitation.
- PROFIT has been actively involved in the **strategic planning process for the African Carbon Credits Exchange (ACCE)**, in a bid to promote and develop Zambia's position in the international carbon market and facilitate access to carbon finance by agricultural and other projects over the long term.

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## Input Market Pathway: Theme 1

### Fostering a sustainable and growing spray service delivery platform increasing smallholder productivity

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#### **Achievements against benchmarks**

##### **1) *Sprayer service providers training manual developed***

- A comprehensive sprayer service training manual focusing on the key area of Safe Use of Chemicals was developed and published over the previous quarter by PROFIT and CropLife Zambia, and approved by the wider agro-chemical industry. Over 176 copies of this manual were distributed to the service providers within the agro-chemical industry during the quarter under review bring the cumulative total of manuals distributed this year to 1,077.



##### **2) *Clearly developed certification, recertification and testing regime developed and adopted by CropLife members***

- Work has continued on this process, greatly facilitated by the CropLife Secretariat which is funded entirely from contributions by the agro-chemical companies themselves. A total of 38 Spray Service Providers (SSPs) were certified by CropLife this quarter, including 21 for Minelands Agri Services in Kabwe, and 17 for Cropserve in Mpongwe. In addition, 15 SSPs were re-certified by Mana Agro Chemicals in Chongwe.
- Once the regime is completed, all SSPs will be subjected to industry-endorsed standardised training, that will form the basis against which the SSPs will be tested, certified and licensed annually. SSPs will later have an opportunity to renew the practicing license upon payment of a fee and re-testing.

##### **3) *600 trained and certified Sprayer Service Providers actively servicing over 9,000ha during the peak season. (400 on limited budget)***

- Over the quarter, 74 SSPs were selected and trained by Minelands Agri Services and Cropserve. A cumulative total of 360 SSPs has been trained over the last three quarters.
- A further 87 potential SSPs have been identified by 3 agro-chemical companies (7 by Mana Agro Chemicals in Chongwe, 40 by Cropserve in Kabwe and 30 by Minelands Agri Services in Kabwe) for training before the next agricultural season.

- 38 SSPs were tested and consequently certified to ‘CropLife standards over the quarter pushing the cumulative total of SSPs tested and certified over the last three quarters to 210.

**4) Industry Accreditation/Identification process of SSPs internal to a firm developed**

- The process of accreditation and identification of SSPs through CropLife continued with the development of Identity Cards and certification. CropLife Zambia has started the accreditation and identification of SSPs and during the quarter under review a total of 43 Identification cards have been developed and distributed among the recertified SSPs as below;

Ag-Input Firm	District	Number of SSPs
Mana Agro Chemicals	Chongwe	15
Minelands Agri Services Agro Services	Kabwe	22
Cropserve	Mkushi	6
<b>Total</b>		<b>43</b>

- Additionally, as part of their certification, SSPs receive CropLife-branded personal protective equipment, part-sponsored by PROFIT, consisting of a spray tunic, mask, goggles and protective gloves. To date 1,077 protective equipment kits have been given out to the service providers, including 176 given out over the reporting quarter.

**5) All firms develop in-community promotional marketing strategies and actively investing in the spray service providers’ capacity to operate in the smallholder market**

- The process of selection, testing and certification of service providers is now largely fully internal to the agricultural retail companies.
- The process of conducting review meetings to check the quality of service delivery and to upgrade the capacity of the spray service providers has been demonstrated by many firms this quarter. A total of 36 review meetings were carried out by 10 companies during the quarter. Of the 36 review meetings, 20 (56%) were done without any PROFIT support.
- 288 in-community promotional events were conducted by the retail firms promoting their products and services to match with the cash flow of the smallholders. Of the 288 promotional events, over 17 were field promotions in which the firms promoted the use of herbicides and the benefits of spray service



provision for various crops such as maize hybrids. Other field promotions were related to fungicide and insecticide spraying in tomatoes. The firms that conducted these field promotions included Landserve, Syngenta, Zamseed, Pannar, ATS, MRI, Minelands Agri Services, Mana Agrochemicals, Croppack and Cropserve. All these promotions were done without PROFIT support. The areas covered included Southern, Central, Eastern, Northern, Copperbelt, Lusaka, and Western provinces

- ZMK3,865,000 worth of sprayer services sales were purchased by over 100 smallholders during the quarter under review. (Since this activity is not directly overseen by the project, reported data under-reads the actual position in the field)

**6) Develop clear and simple pictorial message guides for service providers, in-community agents and farmers.**

- PROFIT has continued to work with CropLife on the development of pictorial messages as more accessible, simpler knowledge transfer tools to the spray service providers and farmers. This work will continue for inclusion in refresher courses starting next quarter.

**Additional Achievements**

- Aware of the prohibitive cost of conventional forms of protective clothing, CropLife has distributed and promoted the 'low-cost' kits, with the CropLife branding. This has been well received and has been presented to CropLife regional associations as an alternative to the traditional high cost approach.
- PROFIT and CropLife have completed the work of developing the identity card for certified spray service providers for use as a marketing tool. 43 identity cards were developed and distributed to the service providers

**Challenges**

- Firms continue to focus more on the process of training agents than on the service platform, suggesting that they are not convinced of the importance of the spray service as a platform for sales. However, since the aim is to increase sales of productivity-enhancing agro-chemicals, if farmers are purchasing and applying chemicals effectively and safely without resorting to buying a spray service and as a result of the extension efforts of the retail firms, then potentially the spray service is a transitional phenomenon.
- Where there have been spray service providers trained, there is still a poor monitoring system of the service platform by the firms.
- No contracts have been signed between firms and spray service providers, thus keeping it an 'informal' relationship.
- Slower than desired progress has been made on defining the certification process of the spray service providers.
- Numbers of service providers are not increasing at the same rate as the demand and uptake of the products for example herbicides by the farmers.

- The promotion of the ‘bundled service’ with the product and service combined into one sales package still remains a challenge. This will be reflected in strategic focus for the 2009 season.
- Firms reluctant to service the distant areas regardless of demand for products by farmers.

#### **Activities planned for next quarter**

- Continue facilitating the development of the sprayer service trainings with appropriate and ‘user-friendly’ training.
- Continue fostering industry players to come up with testing, certification and recertification regimes including:
  - a clear and strong public relations effort to establish value in the smallholder market
  - encouragement of spray service providers and input firms paying for certification and recertification
  - assist sprayers and input firms evolve internal training that complies with certification requirements
- Continue rolling out the basic protective clothing kit to successfully trained and certified spray service providers.
- Continue working with the service providers in promoting the sprayer service platform. Farmers will need to build trust in the service providers and hence multiple strategies toward marketing the service will be important.
- Continue working with the firms in the scaling up of strategies for the service providers.
- Continue to stimulate firm-firm strategic alliances as the mechanism to offer bundled services.
- Continue with the review meeting to analyse the challenges and successes for the last season and lessons learnt and come up with the way forward.
- Continue working with the firms to upgrade the numbers of the SSPs to match demand of the products and product usage.

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## Input Market Pathway: Theme 2

### Fostering expanded agent network development and improved firm level management

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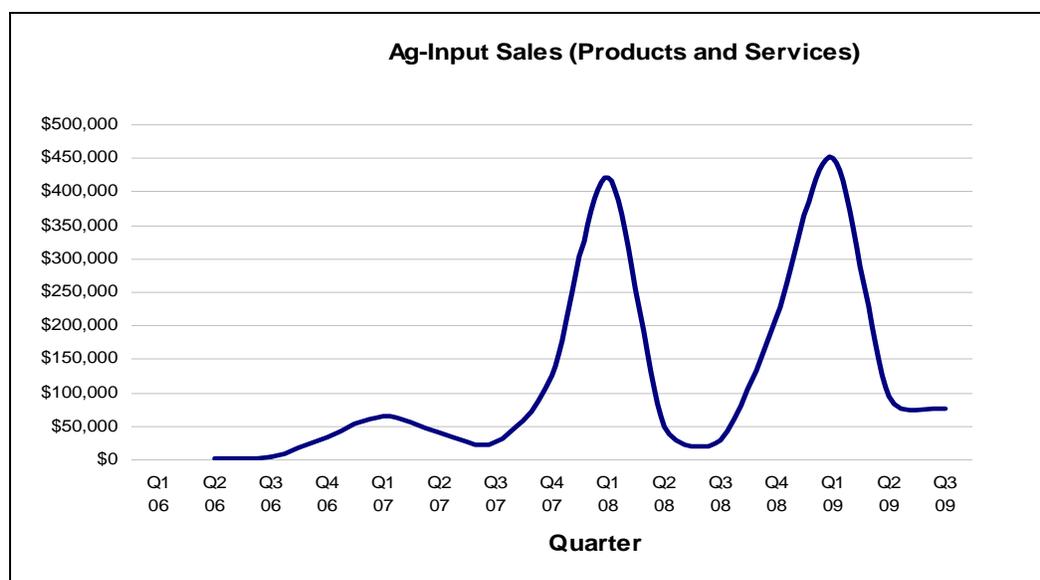
#### Achievements against Benchmarks

##### **1) In-community Service Provider (ICSP) management training manual developed and distributed to all firms**

- The training guide for the management of agents has been compiled by PROFIT and representatives of the agricultural retail industry, and to be produced in booklet form for distribution with strategic meetings with firms to explain the contents.

##### **2) At least 1,000 Community Agents and Sub-agents trained and actively servicing the Smallholder market (600 on limited budget)**

- Over the quarter, 128 new agents and sub-agents were recruited, bringing the overall number of active agents to 1,438.
- 32,740 farmers attended in-community promotions during the quarter, of which 24,601 (75%) were men and 8,139 (25%) were women.
- Over the quarter, the agent network across the country generated **\$76, 681** worth of new sales, comprising mainly maize seed, grain protectants, vegetable seed and insecticides. This represents a 200% increase in sales from the same quarter last year and demonstrates the growing ability of the agents to generate sales in 'off-peak' months.



**3) 14 Input firms integrating In-Community Service Providers (ICSPs) into their business model (11 on limited budget)**

- 13 firms continue incorporating the ICSP into their business models. These include Minelands Agri Services, ATS, Twiga, Cropserve, Croppack, Mana-agro, Pannar, MRI, Zamseed, Pioneer, Landserve, Prime Agri and Afgri.
- Zamseed has created data bases for the agents with their head offices and their stockists in the districts.
- A total of 356 agents (334 men and 22 women) had signed formal contracts with their respective Ag-Retail firms during the quarter under review compared to 206 during Q2 09. This represents an increase of 73% over last quarter's number of agents with contracts with their respective retail firms.

**4) At least 600 new In-Community Service Providers (ICSP) recruited by all firms targeting over 100, 000 Smallholders**

- 289 ICSP's (including spray service providers, agents and sub-agents) were recruited, trained and actively servicing the smallholder farmers during the quarter, pushing the cumulative total of ICSPs recruited and trained over the past three quarters to 703. 28,900 farmers were serviced by these agents over the quarter, bringing the total for the year to 189,900.

**5) 14 Firms taking on increased ownership of the agent network development and management as measured by investment in trainings and incentives (11 on limited budget)**

- Eight firms have now shifted towards full 'ownership' of the agent network. Cropserve, Zamseed, Minelands Agri Services, Pannar, Twiga/sygenta, ATS, Landserve and MRI have all dedicated management resources, conducted trainings, initiated agent selection and training processes without PROFIT assistance. Zamseed, ATS, Cropserve and Pannar, for instance, conducted training meetings with their agents and rewarded the best performing agents to encourage desired behaviour.
- In other case Pannar, Zamseed and MRI are running promotional messages on local radio stations to upgrade and market the agent system to the communities. In additional, firms like Pannar has embarked on a video shooting exercise to document the agent network model as part of their marketing tool. The documentary will be aired on the national TV station and other electronic media houses to market their products and services and the agent model.
- Zamseed has extended its trainings to their stockists to better place them with product knowledge with the view to linking the company's agent network to the local stockists.
- Croppack in Mumbwa has employed a full time Smallholder Manager to manage and coordinate the agent network to market to the smallholder community. Resulting from this initiative there has been an increased number of both sales promotions and sales, and the company has pioneered 'market days' in the local communities.
- Cropserve has purchased motorbikes for all shop managers to enable them reach out to the agents and small scale farmers effectively.

- MRI Munzuma in Monze requested assistance with the development of the consumer impact surveys for the company to understand the demands and challenges of the smallholder market and map out the strategies to handle the market effectively. The company is also planning to intensify local radio promotions to announce the presence of agents in the various communities.
- Seven firms have conducted agent network review meetings during the quarter to analyse the successes and challenges, including forecasting for the year 2009 of this new form of business model. The firms include MRI, Minelands Agri Services, Zamseed, Cropserve, Minelands Agri Services, Pannar and Landserve. The firms took advantage of the review meetings to upgrade the strategies in terms of marketing their products. Zamseed for example has developed some distribution systems using the stockists in districts as hubs for the agents to be drawing products from there. MRI Munzuma in Monze during the review meetings announced the change of their business approach this year moving away completely from consignment to pre-paid arrangement with agents.
- During the quarter, MRI and Minelands Agri Services developed an incentive structure based on sales turnover for their most active agents.

**6) 14 Firms investing in agent network capacity building to consistently hold promotional events at key points of time - harvest, growing, cultural festivals, planting, and other times when opportunities arise. (11 on limited budget)**

- 3 firms developed innovative marketing strategies that focused on opportunistic events at which numbers of farmers and potential clients are gathered together such as rural music festivals, cultural events and religious gatherings. Pannar, MRI and Cropserve marketed their products at the Lwiindi traditional ceremony of the Tonga people of the Southern Province.



**Pannar, Cropserve & Gemini Vet Clinic exhibiting at Lwiindi ceremony, Monze**

- Over the quarter eight firms actively conducted in-community field promotions to market their products without the support of PROFIT.

**7) Simple pictorial input information guides developed for all agricultural input product groups being used by all ICSP's across the platform.**

- The pictorials have been developed and work continues in terms of improving them with a view to distribution in Quarter 4 and Quarter 1.

## **Additional Achievements**

- Demand appears to be growing among the agricultural retail firms for a round of PROFIT-facilitated strategic planning meetings with senior and middle management to improve the management of the agent network. After a period of severe decline in the Croppak retail network in Mumbwa, a strategic management process was undertaken, resulting in a renewed interest and investment in the agent network and the employment of staff with specific responsibilities for managing the network
- This quarter has seen increased levels of cooperation among the different firms with several informal strategic alliances forming, such as the following:
  - Pannar and Cropserve
  - Zamseed and Mana-Agro
  - Pannar and ATS
- Firms have continued to do joint review meetings to foster strategic alliances and offer the farmers a complete input package, including preparing the agents for this season. A case in point is the joint agent review meetings held in Chongwe and Mazabuka by Zamseed with Mana-Agro Chemicals and ATS with 44 agents from all firms in attendance.
- Prime Agri-Centre and Cropserve have stepped up their effort to jointly push and promote the Pioneer seed varieties to the smallholder market in Mumbwa, Kabwe, Choma, Mpongwe and Mazabuka.
- One of PROFIT's newest clients in the smallholder market, Export Trading Company (ETC) has begun to develop close relations with existing in-community agents in Central, Southern and Eastern Provinces to utilize the agent network for the sale of fertiliser, with product available during the harvest period when farmers have money. Competitively priced and with crop-for-fertiliser swap opportunities, the company is making rapid progress in rolling out its depot network across the country. In just two weeks at the end of the quarter, ETC sold 200 tons of fertilizer in Mumbwa worth ZMK720,000,000 (\$138,000) during the quarter under review
- Zamseed has expanded its agent networks in the Eastern province and Kabwe in the quarter with over 20 agents now in Kabwe.
- MRI has started the seed marketing for this season through its agent network with over 4 tons of seed worth ZMK48,000,000 (\$9,000) sold this quarter. This translates into ZMK4,800,000 (\$900) sales commissions accruing to agents.
- PROFIT continued to promote the strategy of conducting specific sales or market days as a good way of systematically enhancing the supply of products to the communities. It further increases the contact and enhances the commercial relationships between the firms and the communities.
- In a bid to mitigate some of the liquidity and credit issues that represent a serious constraint to the timely and sufficient import of inputs specific for the smallholder sector, PROFIT and Lloyds Financials Ltd designed and promoted a Credit Enhancement Fund during the quarter. Further details in the Financial Services section of the report.
- Work conducted by PROFIT, in conjunction with other donors and the private sector, in the last quarter on the development of an e-voucher system to replace either all or part of the Fertiliser Support Programme stopped when it became clear that there was

neither the will for change or the ownership of reform within the Ministry of Agriculture and Cooperatives. However, PROFIT is still facilitating the development of the e-voucher technology through Mobile Transactions Ltd, with a view to testing the platform during the next quarter through a number of donor subsidy programmes, including a large Conservation Farming Unit component.

### **Challenges**

- The timely and sufficient import of agro-chemicals and other inputs specific to the smallholder sector is seriously threatened this year by the difficulties in accessing credit facilities. The situation is particularly difficult for the smaller firms and may threaten supply later in the year.
- Only five firms have moved towards formal contract signing with their agents, resulting in a lack of transparency in the relationship between the two entities.
- Despite some firms dedicating management to the agent network, a failure to equip the staff with the necessary logistical resources has meant that this initiative has not had the positive impact that was expected of it.
- There is still considerable work to be done to improve the ordering and delivery systems that are critical to the success and expansion of the agent sales process.
- Delayed selection and training of agents by some firms resulted in low sales during the peak sales season.
- Lack of actively conducting field promotional meetings by some firms which is critical this quarter.

### **Activities planned for next quarter**

- Continue developing with the firms a specific ICSP management handbook suitable for industry-wide application, standardizing agent and firm roles and responsibilities. The booklet will establish, among other issues guidelines for:
  - Training and upgrading responsibilities
  - Ordering procedures
  - The sales and delivery process
  - The establishment and responsibilities of a dedicated internal resource to manage the agents
  - Service platform opportunities
  - Review meetings and the subjects that require coverage
  - Promotional procedures
  - Performance-based incentive structures
- Continue mentoring firms to further consolidate their market presence through company-specific innovation
- Continue promoting sub-agent initiatives as the scale-up strategy for the firms
- Continue working with firms to develop and implement and enhance their performance based incentive schemes to reward high performing agents/ICSP, encouraging innovation.

- Continue working with CropLife Zambia to develop and structure the process of early input acquisition of inputs by companies to manage the early supply of products to the smallholder farmers.
  - Continue working with firms to intensify on the in community promotion activities targeting the peak period for the farmer's cash flow.
  - Continue working with the firms to target and help initiate innovative ideas on the social events and opportunistic events during this quarter
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### **Input Market Pathway: Theme 3**

#### **Fostering inter-firm cooperation to address common crop industry issues**

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#### **Achievements against Benchmarks**

##### **1) Industry certifies 100% of the current trained and active spray service providers**

- 64 additional spray service providers were trained and tested and 15 re-certified by the firms over the quarter which is an increase of 101% over the last quarter's figure of 63 SSPs

##### **2) Certification process clearly defined and accepted by all CropLife members**

- PROFIT started working with CropLife on this initiative; work has progressed over the quarter with efforts of how to improve the process further. CropLife members approve of the process.

##### **3) Retraining and re-certification of at least 80% of the industry trainers**

- The re-certification process will start for the CropLife accredited trainers in the final quarter of the year with a planned training of trainers to both old and new trainers by April in the next quarter.
- 45 (36 new and 9 old) Trainer of Trainers (TOT's) were trained and certified by 'CropLife International during the quarter. All the TOTs have been given Identity Cards.



***Nine retrained Trainer-of-Trainers pose for a photograph after their re-certification***



***36 new Trainer-of-Trainers being lectured***

- The CropLife Secretariat has continued to increase its managerial and operational capacity and has started to take the lead in many industry programmes. To this effect CropLife Zambia was recognised as 'The Most Improved Secretariat' by CropLife international at the CropLife International Conference held in Namibia in June.

### **Challenges**

- The process of developing a clear certification process has been slower than expected
- Some of the accredited trainers of trainers have contributed very little to the industry in terms of the trainings offered to farmers and spray service providers. The challenge remains to ensure that all input suppliers have in-house trainers.

### **Activities planned for next quarter**

- Work with CropLife Zambia to establish an enforcement process which is necessary to police the standards set by the organisation
- Continue to work with CropLife on the follow ups on the trained trainer of trainers to help them continue training the SSPs and farmers
- Use the CropLife collaborative platform to seek opportunities for additional commercial strategic alliance formation.
- Continue working with the new CropLife staff to develop capacity and to market CropLife Zambia.
- Facilitate an Agro-chemical Industry Forum at which various issues pertaining moving the industry forwards will be discussed and an action plan for the Secretariat outlined.
- Continue to work with CropLife to ensure the process of certification, recertification and identification of SSPs is done over the quarter.

**Achievements against benchmarks**

***1) Improved business skills developed among Tillage Service Providers (TSPs) to proactively provide early land preparation service as measured by number of commercial tillage contracts***

- Conservation farming trainings, focusing on ripping technologies, took centre stage in the quarter under review, with over 2,300 farmers trained in Choma, Mazabuka, Monze and Kalomo and a further 900 farmers trained in 16 communities in Mkushi and Kapiri.
- 2 MACO staff who are also in-community agents were trained in conservation farming techniques in Mkushi.
- PROFIT and Dunavant designed a business skills training module and conducted a series of training-of-trainer sessions with 15 Dunavant staff who will, during the next quarter, train over 300 TSPs affiliated to the cotton sector.

***2) Contract models developed and in use along with prepayment concepts for TSPs***

- 28 farmers have signed written contracts for oxen tillage service in Mumbwa under this quarter in review, covering 20ha. This is the earliest that land preparation has been undertaken since PROFIT began working in the sector.

***3) At least 20 new two tine ripper purchased by TSPs***

- One tractor drawn ripper has been purchased from one of PROFIT's SME clients specializing in agricultural machinery fabrication, Akajoel Enterprises, by a farmer in Mumbwa district with a further interest being felt from small scale farmers. There is also interest from a farmers organisation in Mozambique.

***4) At least one tractor Service Company supporting tractor operators providing commercial tillage services.***

- 1 farmer/trader in Mkushi sealed a deal with Tractorzam for the provision of a reconditioned tractor which will be ready in the next quarter. The total cost of the tractor is K65,000,000 (\$12,234) and a 20% down payment has already been made with the final payment and collection to take place in the next quarter. The same farmer will be purchasing a ripper at K9,500,000 (\$1,788) from Akajoel in Magoye in order to start contract ripping services.

**5) At least 1000 new Magoye rippers sold through commercial channels by September, 2009.**

- 30 Magoye rippers were sold through the agent network in Mkushi, bringing the total number of rippers sold from Q1 09 to date to 1,242.
- Another 1,000 rippers have been moved to various sheds within the Dunavant network with a view to selling them to the TSPs which will be trained during the next quarter

**Additional Achievements**

- Work continues to facilitate the importation and distribution of second hand Japanese 20-25hp tractors for the lower end of the market, intended for sale as a package with a specially designed ripper and trailer.

**Challenges**

- Few farmers are adopting conservation agriculture due to cultural perceptions and overall lack of overlap at the input/output levels. Market confidence remains key to stimulating adoption.
- Agricultural retail firms are not supporting their agents sufficiently to develop their capacity to promote and sell Magoye rippers
- No progress made on the purchase of small rippers by farmers due to non-availability of small tractors on the Zambian market. This is likely to be resolved during Q4.

**Activities planned for next quarter**

- In-community promotional meetings with CFU
- Review meetings with retail agents and firms including CFU to bolster ripper sales
- Over 500 rippers are expected to be sold this coming quarter due to the following factors:
  - Extensive and commercially-based conservation farming trainings
  - Cash flow improvements with harvest and sale of crops
  - Dunavant promoting the sale of rippers to their TSP network

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## Cotton Industry Development Pathway: Theme 1

### Fostering professional supply chain management in the Cotton Sector

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#### **Achievements against Benchmarks**

**1) At least two cotton companies adopting more professional management strategies involving a rationalization of their production base to exclude non-contributing farmers and rewarding of the most productive farmers.**

- In October 2008, Dunavant launched and implemented its 'Gold Club' for its preferred suppliers, which number approximately 16,000.
- Towards the end of the quarter, Cargill began moving towards some form of preferred supplier concept with the introduction of 'cotton schools' whereby their best performing farmers have access to more intensive training and also to services such as tillage and spraying. Further details of the operation and benefits of the cotton schools are awaited.

**2) 800 qualified and active spray service providers in the cotton industry (600 on limited budget)**

- During the first quarter of the year, PROFIT's three clients in the cotton sector, in conjunction with the programme and agricultural retailers trained 1,356 spray service providers. During the last quarter, Birchard and Dunavant, in conjunction with PROFIT, trained and certified 822 of these spray service providers to the Croplife Zambia standards of safe use of chemicals. It is estimated that over 800 of these were commercially active during the growing season, covering approximately 4,000ha of cotton.
- As the cotton harvest begins, preliminary results show a very positive correlation between the use of a spray service provider and yields. While there may be other attributing factors such as a generally benign meteorological season, what is important is that the clients of the service are happy and indicate a strong willingness to continue purchasing the service in following seasons.
- The combined value of the spray services purchased by cotton farmers will have been approximately \$24,000

**3) 400 trained and active tillage service providers (250 on limited budget)**

- Over the course of the first quarter, Dunavant and Cargill trained a total of 170 tillage service providers, from an approximate total of 320 oxen owners who expressed interest. It is estimated, though, that only 60 service providers were actually active within the cotton sector prior to the 2008 planting season, primarily since Cargill failed to facilitate the delivery of rippers to their potential tillage service providers..

**4) At least 10,000 ha of early land preparation carried out prior to 2009 planting season**

- Reports suggest that approximately 100 tillage service providers had already started land preparation after harvesting, but the area of land is not known at this time.

**5) At least five farmers affiliated to cotton companies receive finance for tractors for the facilitation of ripping and haulage services**

- To date, efforts by PROFIT to facilitate the integration of commercial equipment leasing facilities into the cotton sector have not yielded any success, despite the commitment by Dunavant to support some of their stronger distributors with forms of guarantee. The only tractor to have entered the cotton sector was one provided by Dunavant to a top-performing distributor in Mumbwa in October 08 as a demonstration of the viability of a ripping and haulage service-based business model.
- PROFIT is working with an equipment dealer in Lusaka, Farmnet, to design and market a package comprising a small, 20-25hp tractor, a trailer and a modified ripper into the cotton sector, with Dunavant acting as a guarantor on any supply chain credit that their 'Gold Club' distributors may be able to access. However, there are considerable delays on the part of Farmnet and its suppliers in delivering the required equipment to Lusaka. It is hoped that progress will be made in this sector during the next quarter.

**6) Achieve full implementation of the Dunavant preferred supplier programme**

- The final version of the Dunavant 'Gold Club' scheme, its criteria for membership and its various incentives was completed during the last quarter, including a 10% discount on input costs through the loan system, access to other forms of credit for oxen and rippers and special Gold Club pens and bags. There are approximately 16,000 members.

**7) Involvement of at least two agricultural retail companies in at least two cotton production networks, either in agency agreements with the companies or directly with the farmers and spray service providers**

- Following a trial year last year in Eastern Province, Dunavant have begun discussions with Twiga Chemicals on expanding the retail agreement the two companies signed last year. Sales were low during the trial year – mainly because of late delivery (sheds were stocked when farmers no longer had money for investment in chemicals) and the fact that the shed clerks did not have sufficient information on the products they stocked to drive sales, or any incentive to do so. Distributors to whom farmers had been referred by the shed staff for product information had little in the way of relevant information and little in the way of incentive to seek it. For the following marketing season, Twiga intends to have the products in place earlier in the season, and to shift some of the Dunavant commission on sales through to the distributors and agents who would then have an incentive to push sales through the sheds.
- Twiga and Dunavant intend to train 150 of the best performing spray service providers in Eastern Province to perform the role of sales agents.

- Dunavant intend to conclude agency contracts with ATS and Seedco to stock seed and chemicals in selected Dunavant sheds in Central and Eastern Provinces in accordance with last year's agreements.
- PROFIT is, on the request of Birchand, facilitating input linkages to their Chama cotton farmer network. The Chama area is poorly served by input markets, but utilising the structure of Birchand is, in principle, a useful way of reducing transaction costs through bulk purchase. A major seed supplier has been to Chama to conduct promotions, and both an agro-chemical supplier and fertiliser supplier will be promoting their products during the course of the next quarter.
- Cargill have indicated willingness for between twenty and thirty of the spray service providers trained during last year (but non-operational due to the lack of ULVA equipment) to be trained by Syngenta/Twiga in the sale and application of herbicides and cattle dips. The company has since procured the spraying equipment and is providing it to those potential service providers trained.

### **Additional Achievements**

- Over the course of the quarter, PROFIT assisted Dunavant to design a Service Providers Business Manual which forms the basis of a basic business training course for the Gold Club distributors and tillage and spray service providers affiliated with the company. In line with the commitment by Dunavant to internalise the process of identification and training of service providers as a core component of the company extension programme, the process of delivering the business training will be undertaken by Dunavant staff during the next quarter. However, to facilitate this training initiative, PROFIT conducted two training-of-trainer courses for the 15 Regional Yield Agronomists responsible for the actual training of service providers.

### **Challenges**

- With farmers still leaving the sector, and international cotton prices down 40% from last year, the industry is still in a serious crisis. While the 30% depreciation of the kwacha will have partially righted the balance, the major firms will continue to post losses in 2009, particularly as the seed cotton harvest is predicted to be lower than that of last year (95,000t) when utilisation of ginning capacity was running as low as 25%.
- Due to the difficult local operating conditions and the global credit crisis, several of the new entrants in the industry over the last three years reduced their pre-harvest investment in input credit and extension. There are concerns that this will trigger another season of pirate buying, but a pre-harvest agreement by all ginners to pay the same price for cotton across the board may help to mitigate this issue.
- Even with a major crisis within the industry which requires an equally robust and dramatic response, strategic decision making within the industry remains slow.
- The credit culture within the cotton sector continues to dampen the 'entrepreneurial spirit' within many service providers as they expect everything to be done for them.
- Cotton company staff is often distracted from long-term strategic action by the immediate needs of the cotton buying process.

### **Activities planned for next quarter**

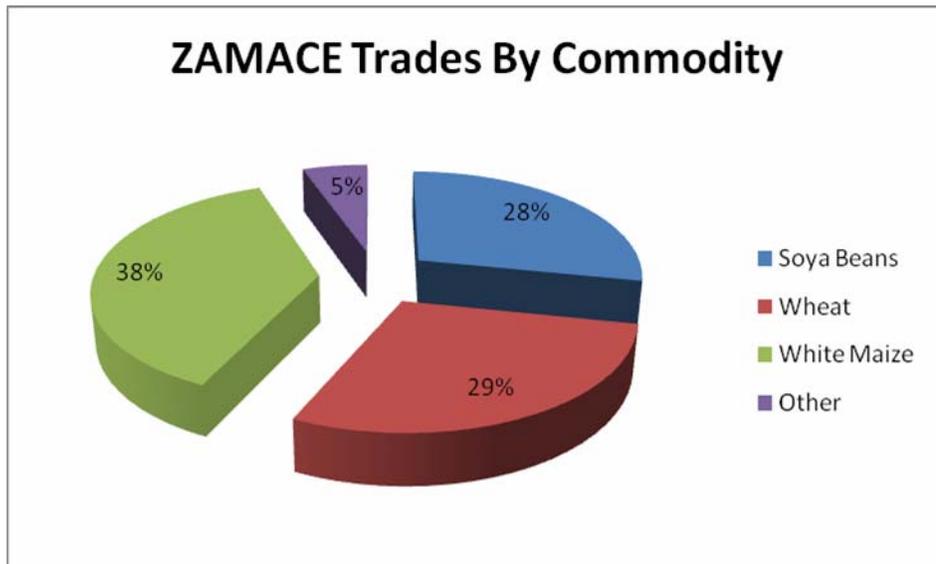
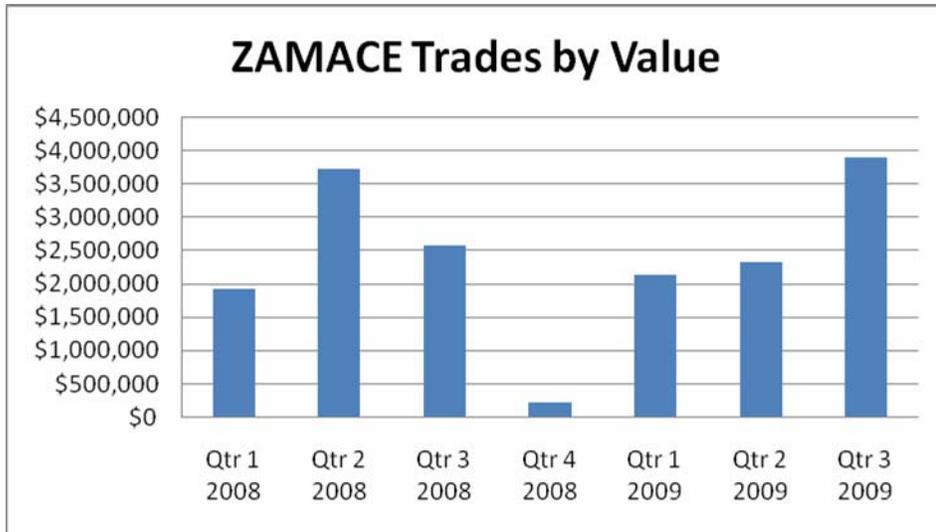
- Following the training-of-trainers in delivering the Dunavant business course, PROFIT will mentor the Regional Yield Agronomists in their delivery of the courses over the next quarter. It is estimated that approximately 600 tillage service providers and 800 spray service providers will be trained during this process in improved business skills.
- It is critical that the tillage service providers have access to both rippers and the necessary technical skills to provide ripping services. To this end, PROFIT will ensure that the Conservation Farming Unit are able to deliver a short technical course to interested service providers, and ensure that, either through Dunavant or through the agricultural retail sector, they access rippers as soon as possible so as to allow as great as possible a business window before the onset of the rains.
- In conjunction with Farmnet, PROFIT will attempt to facilitate the purchase of small tractor 'packages' by high-performing cotton farmers and distributors
- PROFIT will monitor and advise on the integration of agricultural retailers into the Dunavant and Birchard cotton systems, learning from the lessons of last year to enhance both sales and benefits to farmers from those sales.

#### **Achievements against benchmarks**

##### ***1) At least \$50m of cumulative trades completed on ZAMACE, affecting a significant move towards self-sustainability***

- The 2009 marketing season started sluggishly, with some of the distortionary effects of the FRA market engagement in the previous quarter still in evidence. However, in the last two months of the quarter, volume of trades picked up significantly, to a point where trade figures registered a 40% increase over the last quarter. With a trade value of \$3.9m and nearly 30 trades, this quarter has registered both the highest value and greatest trading activity since the inception of the Exchange. There were a number of reasons for this increase:
  - With the completion of the soya harvest and the early maize harvest there were higher levels of supply and also mills were seeking to re-stock inventory
  - There was an increase in registered trades as brokers sought to comply with new regulations stipulating the need to register all off-exchange transactions
  - There is a growing perception within the milling sector that using ZAMACE provides a cheaper alternative to conventional procurement methods, removes the trader from their supply chain and provides a shield from the political perception of millers as exploiting the farming community. As a result the activity on the bidding side increased.
  - A Bid Volume Only transaction of white maize by World Food Programme generated activity, as did the first maize meal transaction on ZAMACE – also placed by WFP.
  - ZAMACE's growing profile in the market is attracting significantly more interest by potential clients, with a consequent increase in the proportion of bids placed by brokers on behalf of clients as opposed to their own account.

However, the total cumulative trade across the ZAMACE floor since inception is still only \$16,800,000, which falls far short of sustainability goals. ZAMACE is currently only generating under 30% of the company's total income, and while revenues are increasing, still only \$50,000 on income has been generated from the trading platform.



**2) 5 mid-level traders offering ZAMACE-based pricing in their aggregation of crop, and offering a variety of value-enhancing services to smallholders and small traders in the districts**

- During the quarter and from an initial batch of seven applicants, ZAMACE identified three potential warehouse operators, with trading operations and storage facilities in Mkushi, Kabwe and Petauke that either met or were able to meet all of the following criteria for ZAMACE certification:
  - Registered business
  - Holder of a bank account
  - Storage facility in excess of 500t in good structural condition
  - ZAMACE trained warehouse managers
  - Security – fences, locks, guards etc

- All risks, ZAMACE-approved insurance for 500t maximum stored crop – ceded to ZAMACE
- Assized weighing scales

With their warehouses certified by ZAMACE, the small businesses were formally trained in May in both ZAMACE operations and approved warehouse operating procedures, rules and regulations. By the end of the quarter, all three warehouse owners were concluding negotiations on the requisite insurance packages, with a view to commencing the intake of crop at the beginning of the next quarter.

- By the end of the quarter, three more warehouses in Southern Province were being assessed for eligibility for certification.
- The business model that the warehouse operators have adopted revolve around providing two distinct models allowing farmers and small traders to access the services offered by ZAMACE:

1) Issuance of Warehouse Receipt

- *Parcels greater than 30t (ZAMACE minimum)*
- *Depositor can chose whether to sell or store*
- *Depositor contacts ZAMACE broker directly*
- *Depositor charged for storage, handling and fumigation*

2) Issuance of Goods Received Note

- *Parcels less than 30t*
- *Gives Issuer the mandate to sell on behalf of Depositor*
- *Issuer aggregates to 30t+ and sells across Exchange*
- *Depositor paid post-sale less fixed all-inclusive commission*

- ZAMACE's role in the operations of the district warehouses is as follows:
  - *Train warehouse operators and staff*
  - *Provide operating, storage and documentation procedures*
  - *Provide robust certification, oversight and inspection role*
  - *Maintain database of all ZAMACE documentation*
  - *Authorise any withdrawals from warehouses*
  - *Provide trading platform for sale of underlying commodity*
- This initiative will foster greater confidence within the commodities sector for dealing with the lower end of the market by allowing 'sight unseen' purchase with a quality assurance. The fact that crop is aggregated in secure and accessible sites will serve to reduce the transaction costs in trading smallholder crop.
- A quality and quantity certification provided by a certified warehouse allows a depositor to trade his or her crop as commercial product, thus rewarding quality and eliminating the traditional discounting that is applied to smallholder crop of any quality. Critically, this initiative is the only way in which smallholders and emergent farmers can realistically access the Exchange. The smallholder stands to gain most from the workings of ZAMACE, through the removal of all position takers between the farmer and the end market the mitigation of many of the substantial risks the smallholder faces in crop sales and the empowerment of the farmer inherent in the evolution from price-taker to price-setter.

**3) 5,000 tons of smallholder crop transacted across the ZAMACE trading floor with measureable benefits reaching the producer (300mt on limited budget)**

- The district warehouses working with ZAMACE will start receiving deposits during July, when it is generally accepted that moisture levels have fallen to below the maximum permissible levels for ZAMACE Grade A maize (12.5%). As a result there have been no deposits made to date and no smallholder maize transacted across the Exchange in the quarter
- Alongside the district warehouses, ZAMACE is developing, in a joint initiative with the JICA-funded Participatory Village Development in Isolated Areas (PaViDIA) project, a network of community-run warehouses in Chongwe District. During the quarter, ZAMACE trained shed committees and shed management personnel and Government extension officers from 24 sheds in the district in warehouse and grain management. However, criteria for certification such as access and non-affiliation with the Food Reserve Agency were not met by eight sheds, and a further six shed committees had made no movement towards the procurement of the clean grain bags and scales deemed essential before operations could start. It is likely that the remaining ten will be certified and able to receive grain on behalf of their communities during the next quarter.

**4) An automated or semi-automated trading platform established**

- The development of an online solution to ZAMACE's current manual trading process was completed during the previous quarter. While the new process does not match and complete trades, it allows the submission of bids and offers in a standardized format into a database from which trading information sheets are derived, trades monitored and matched, and SMS and email price information disseminated. During the reporting quarter, brokers tested the system and refinements were made, with a view to establishing the system in a fully functional fashion by the beginning of the next quarter.

**5) The inclusion of two major banks in ZAMACE-related finance activities (warehouse receipting and other forms of commodity finance)**

- No banks have yet engaged fully with ZAMACE in financing activities.
- Discussions with ZANACO and Rabobank related to the bank's efforts to build a product around warehouse receipt financing continued, but no concrete outcome was obtained.
- ZAMACE assisted ZANACO and IFC in making their clients under the ZNFU co-managed Emergent Farmer Programme aware of the operations of ZAMACE. ZANACO wish to encourage all of their clients to put their crop into the ZAMACE warehouses for onward transaction across the Exchange.
- ZAMACE and PROFIT designed the ZAMACE warehouse receipting model with Lloyds Financials Ltd, a small and innovative financial services company, which intends in the future to manage a warehouse receipting portfolio

**Additional Achievements**

- Two further brokers were admitted to ZAMACE at the Annual General Meeting held in June, bringing the total number of brokers to thirteen. A further candidate is being considered.

- In June, ZAMACE held a two-day workshop to create awareness among government and financial sector stakeholders in the operation and benefits of the Exchange.
- At the end of the quarter, ZAMACE and PROFIT were invited to present the concept of the Exchange to the Minister of Agriculture, who gave it a very favourable commendation and assured ZAMACE of political support.

### **Challenges**

- Perceptions of ZAMACE within the commercial farming sector are still mixed, with the result being that uptake and usage, while increasing, is still low. However, the ZNFU now endorses ZAMACE as a viable marketing option for the farming community and have agreed to undertake publicity on behalf of ZAMACE.
- The publicised operational plan of the Food Reserve Agency was, by the end of the quarter, causing confusion in the smallholder market. FRA prices were set above what is perceived to be a realistic market price, and yet FRA has committed to buy only a small proportion of the smallholder crop which makes the price the Agency set little more than a minor reference point. It is suspected that smallholder deposits into ZAMACE warehouses and the Chongwe community sheds may start slowly as farmers anticipate sale to the FRA, but will increase as farmers seek alternative markets once the small buying mandate (1,200t per district) is met.

### **Activities planned for next quarter**

- Working with the ZAMACE Warehouse Operators to market their services, and ensuring compliance in management and reporting will form the key task in the operations of ZAMACE during the following quarter. Oversight will need to be particularly heavy during the early stages of the process to ensure the credibility of the system in the market.
- With the milling community beginning to see the benefits of using ZAMACE for their stock procurement, ZAMACE needs to focus its marketing attention on some of the larger industrial buyers such as the breweries and stock feed companies.
- Indications are that ZAMACE is receiving positive political support, but further efforts need to be made to ensure understanding of the workings of the Exchange and its benefits to the farming community at the highest levels of government.
- The semi-automated trading platform needs to be fully operational during the next quarter.

#### **Achievements against benchmarks**

**1) At least 10,000 farmers engaged in either contracted or guaranteed off-take production with a non-cotton lead firm (2,000 on limited budget)**

- The non-cotton outgrowing industry was hit by the fall in general commodity prices over the last two quarters, which reduced the incentive to invest in smallholder supply chains, particularly in the oil-seeds industry. No further non-cotton producer - processor relationships were entered into over the quarter.
- Forest Fruits, however, is expanding its producer base to areas outside Mwinilunga to other areas of high potential honey production. This move serves to increase their intake of non-organic honey for the local and regional retail initiative that the company is currently undertaking. While no honey has yet been bought, beekeeping groups have been identified in Mumbwa, Eastern Province and the Chiawa area of Kafue District. PROFIT is assisting Forest Fruits to design an outgrower scheme for the Chiawa area, based on modern hive production from

#### **The Chiansi Irrigation Project: A model for smallholder commercialisation?**

PROFIT is supporting the Chiansi Irrigation Project in the Kafue District of Zambia. The project is implementing a new approach to bringing smallholder farmers into commercial agriculture, whereby 125 farming households have pooled their titled land into a block to secure funding to start a commercial farming operation. The smallholders are shareholders in the commercial farm, and so reap dividends from the operations. The smallholders are also managing a small irrigation system to generate additional revenue.

PROFIT has worked with the Chiansi Irrigation Project since its inception, providing technical and logistical support to the establishment of the smallholder cooperative and its relationship with the commercial entity. The project entered an exciting phase during the quarter. The initial 60 ha maize crop, managed jointly by the smallholder farmers and the commercial manager, is being harvested and the expected yield is 330 tonnes. Maurice Hikapulwe, the councillor for the ward said that “the area has traditionally relied on food aid, but now the community will be able to feed itself.” Four centre-pivot irrigation systems and a lateral line irrigation system have been installed, covering a total area of 178 hectares on which wheat, maize and vegetables will be grown.

The cooperative formed by the smallholder farmers is holding regular general meetings and board of director meetings, and has hired an agricultural manager. The cooperative intends to pilot growing a variety of rice that is new to Zambia.

At this early stage, the Chiansi model is proving to be a success, and there are indications that neighbouring communities in Kafue District are keen to incorporate themselves into the scheme, through the pooling of customary land.



***A team of cooperative members packs harvested maize***

an estimated 500 beekeepers in the area.

**2) Five lead firms operating some form of out-grower scheme engaging farmers for specific production needs.**

- PROFIT has been providing technical assistance to the establishment of a smallholder avocado export company linked to a major fruit buyer in the UK. The tree nursery was established during the quarter, and two irrigation farmer groups identified as recipients of the trees at the onset of the rains.

**3) Initial limited commercial trials of upland rice initiated with SCCI and producers**

- During the last quarter, PROFIT facilitated the planting of four trial plots of three varieties of upland rice. (Nerica 4, 10 and Suparice 1) All plots are progressing well, with harvest anticipated early in the next quarter. All sites are financed and managed by the farmers. Initial indications are that the late planting has put the grain fill period of the crop under excessive cold and this will severely impact yield. The West African Rice Development Association has, as a result of PROFIT intervention seen the utility in advancing funds sourced from JICA to ZARI. This obligation was mediated by PROFIT and is in place to secure increased seed production of at least NERICA 4 in the coming season. This grant to ZARI included a significant allocation to ZAMSEED for the commercial production aspect.

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## Vet Services and Beef Industry Pathway:

### Theme 1: Improving participatory government oversight as a key to private vet services provision

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#### **Achievements against benchmarks**

**1) A pilot process implemented in a selected trial area of the 'critical' services and functions including the private and public sectors operating in their roles as defined by the Livestock Development Plan.**

- Since the inception of the Ministry of Livestock in the first quarter of the year, the current Livestock Development Plan is under review which makes the implementation of a pilot process difficult because the definition of critical services is still unclear.

**2) At least 4 Vet Network working group workshops conducted, establishing clear oversight and regulatory framework/ roles for the public sector**

- One stakeholder meeting was held in Kabwe in June which saw the participation of the Provincial Veterinary Officer for Central Province and District Veterinary Officers (DVOs) from Mumbwa, Kabwe, Chibombo and Mkushi, participating in a bid to establish clear oversight guidelines for public vets and veterinary assistants as they potentially engage in private sector activity.

**3) Pharmaceutical Act reviewed in support of the Vet Industry**

- The process of reviewing the Pharmaceutical Act has started, with amendments to the Act recommended and drafted by the veterinary sector.

**4) Clear Cattle Movement Requirements agreed upon and implemented**

- Despite PROFIT efforts requesting the government to provide clear guidelines in terms of cattle movement restrictions in Mumbwa, the DVOs are still waiting for guidelines from Ministry Headquarters.

**5) Awareness of MACO Oversight & Regulatory Roles increased by publicity campaign**

- In the last quarter there was some movement in the oversight and regulatory role of the Ministry of Agriculture and Cooperatives (MACO). Through the Department of Veterinary and Livestock Production, the Ministry is in the process of reviewing the existing legislative framework surrounding the delivery of veterinary services in Zambia. MACO has shown pro-activeness in the quest to review three draft laws namely the Veterinary and Para-Veterinary Professional Act, the Animal Health Act and the Brand Act, and has approached PROFIT to help in sourcing a consultant to help review major policies in the Ministry of Livestock, which is a very positive step forwards.

### **Additional Achievements**

- In the last quarter, public vets who were beginning to playing a role in private sector service provision have developed private businesses that sit alongside their public practise. For example, the DVO in Mumbwa District, Dr. Chazya, has established a vet business called Vet Haven and has employed a full time Veterinary Assistant to manage this business.
- One vet under the internship programme with Minelands Agri Services Agro Services has since graduated and has set up his own private vet business called Hope Vet – Agric Service with 12 trained agents that are directly selling to farmers both on the HHP services as well as one off services and drug sales.

### **Challenges**

- During the quarter it has become very clear that there are no clear guidelines in terms of public vets being providers of basic vet services in a private capacity. Even though there is some legislation that restricts them from providing the services, there is no enforcement structure in place make it very difficult to define their role in the disease management profile.
- Veterinary Assistants pushing personal businesses still present a huge challenge to the private vet service provision business model.

### **Activities planned for next quarter**

- Continue working with the Department of Disease Control and the Ministry of Livestock in defining the role of public vets and Veterinary Assistants through stakeholder meetings with the Department

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## **Vet Services and Beef Industry Pathway:**

### **Theme 2: Fostering market output linkages as a key to private vet service expansion**

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#### **Achievements against benchmarks**

##### ***1) At least 2 commercial buyers buying from smallholders through centralised off take markets***

- During the quarter under review, More Beef, a commercial cattle buyer in Southern Province, has been actively engaging smallholders in Namwala District through the organisation of centralised off-take markets.

**2) At least 5 emerging farmers start to improve their herds through proper management including purchase of commercial bulls.**

- More Beef has also been engaging smallholders on a bull exchange programme in order to help them meet its quality requirements in the long term. Under this programme, smallholders will be able to exchange three commercial steers for a 2<sup>nd</sup> grade pedigree Brahman or Boran bull

**3) MACO supporting cattle sales and movement in HHP herds**

- This quarter saw very slow movements on this activity due to delays by the Ministry to provide written guidelines during the partial cattle movement ban period that is currently in place

**Challenges**

- Partial cattle movement bans still remain a big challenge in rolling out the output market intervention in all the areas

**Activities planned for next quarter**

- Work on implementing the cattle buying intervention with More Beef in Southern Province
- Work with MACO to ensure that the guidelines on the sales and movement of animals on herd health programmes are established.

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**Vet Services and Beef Industry Pathway:**

**Theme 3: Integrating vet service provision through Ag-input firms**

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**1) At least 3 Ag input firms employ vets**

- Minelands Agri Services recently released the vet that was directly employed to assist the firm in driving the sale of vet services and products, purporting that this business avenue was not profitable for it. However, the vet has started his own business and is pushing both vet services and agricultural inputs in Mumbwa, Chongwe and Chibombo. The vet has established an agent network in Chibombo to spear head the sale of both vet services and agricultural inputs.

**2) At least 5 strategic alliances between vets and input firms established**

- The plan initiated by Twiga in the last quarter to work with spray service providers (SSPs) affiliated to Dunavant in Eastern Province to push cattle spray services and dips came into fruition in this quarter. 30 of the highest performing SSPs were selected and trained in cattle spraying service provision by a vet in the Province, Dr. Chaka. The 30 sprayer service providers are now selling cattle sprayer services to farmers, charging K2,500 per animal. These Dunavant sprayer service providers are also aggregating vaccinations and de-worming sales for Dr. Chaka

- During the quarter 4 vet firms (Hope Vet, Vet Haven, Dr. Nawa and Dr. Chaka) successfully conducted strategic planning meetings facilitated by PROFIT.
- Dr. Chaka also successfully conducted a pricing and costing review of his services and products and has since developed a competitive pricing structure for his products to compete with other service providers.

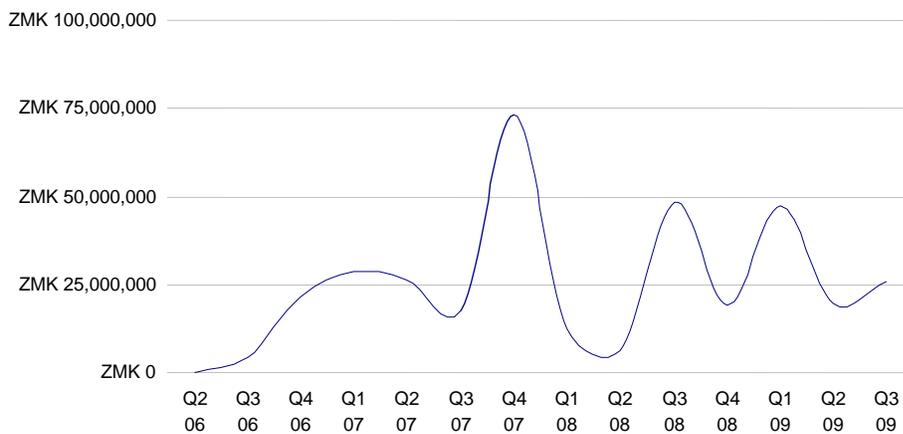
**3) At least 400 agricultural retail agents providing basic vet services and cattle sprayer services**

- A total of 125 agricultural agents are currently selling livestock-related products as part of their portfolio of products

**Additional Achievements**

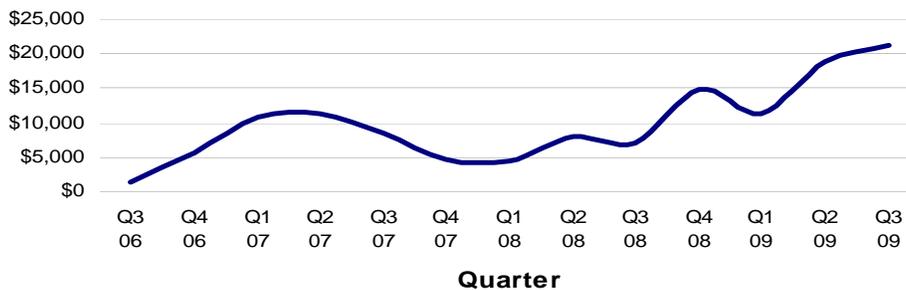
- During the quarter, approximately \$4,860 was generated via the sale of herd health contracts, compared to \$3,600 worth of HHP sales over the last quarter. This represents a 35% increase over the Q2 09 figure.

**Sales from HHP Contracts (ZMK)**



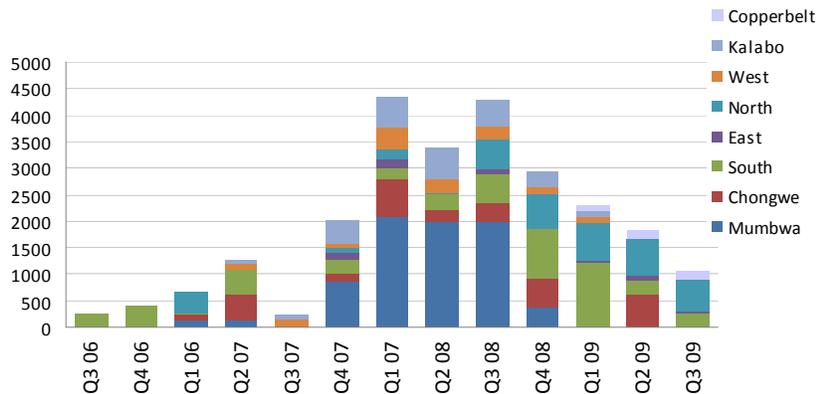
- Drug and service sales over the quarter were worth over \$21,000 compared to over \$18,000 during Q2 09. This gives an increase of over 20% over last quarter's figure.

**Sales of Private Vets Services/Products (US\$)**



- The number of animals accessing one-off services at the end of Q3 09 was 7,672 compared to 14,422 for Q2 09. This gives a decline of 47% over last quarter's figure. The reduction in the amount of sales was mainly due to the fact that farmers had inadequate money to spend on livestock services as they awaited the crop harvest which they usually depend on to by products and services.
- The number of animals on vet contracts as at the end of the quarter was 1,070. Of this number 755 (71%) were dairy type animals and 315 (29%) were beef animals. This depicts an important relationship between the payment for HHP services and the dairy smallholders' willingness and ability to pay for the HHP services from their steady flow of monthly income. On the contrary, the beef cattle smallholders rely mostly on seasonal cash flow for them to pay for the HHP services which negatively affects their ability to pay in times of poor cash flow.

**Number of Animals on contract  
by region**



### **Challenges**

- In as much as there has been a slight shift by vets in terms of their management skills (a willingness to participate in strategic planning sessions and review meetings, for example), there is still a huge gap in the business skills and capacity which still needs to be addressed.
- Numbers of animals on HHP have been in decline over the last 12 months, and concerns are raised over the commercial viability of the model, particularly in the beef sector, where PROFIT support has been critical.

### **Activities planned for next quarter**

- Continue to work with Dunavant sprayer service provider to promote provision basic vet services and cattle sprayer services
- Work with Vet service providers in building strategic alliances to build their capacity
- Work with vets to improve their business skills through strategic planning sessions and business reviews

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## Dairy Industry Pathway:

### Theme 1: Improving Inter-firm cooperation – strengthening commercial relationships

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#### **Achievements against benchmarks**

##### ***At least 4 alliances/ partnerships between private sector companies established***

- Over the quarter, Parmalat started training farmers using the PROFIT sponsored dairy production manual. A total of 367 farmers were trained by May and June, and the delivery of the initial training modules was complimented by three input suppliers - Tiger Feeds, National Milling and Hygrotech. It is intended that as the roll-out of these training modules continues that additional companies will be invited to participate in the modules relevant to their core businesses. These will include suppliers of veterinary services, artificial insemination (AI) and suppliers of dairy hygiene products.



***Parmalat staff training members of the Magoye Dairy Cooperative using the PROFIT-sponsored Dairy Production Manual, May 09***

- While Parmalat have already begun training using the production manuals, three other processors, Dairy King, Zammilk and Nice Products, have all committed to purchasing them for their suppliers at a cost of K100,000 (\$20) per booklet, representing direct support by industry partners towards creating a more productive dairy sector.
- Hygrotech intends to establish itself as the supplier of choice in Zambia for pasture seeds to the dairy and livestock sectors, and moved towards this with a 'productive pastures forum' held at the end of the quarter. This entailed a combination of field visits to several key dairy production areas and a brainstorming forum. The effort was made in collaboration with some of the main players in the Zambia livestock sector including Parmalat, Zambeef and Tiger Feeds as partners in their efforts to raise the profile and importance of using an improved pastures approach to enhance productivity. This is the first initiative of this kind in Zambia and is completely private sector driven.

- Leliosa Veterinary Services in Mkushi and A&P International, the largest suppliers of semen in Zambia, have begun to collaborate in the training of small scale farmers to promote AI services. The first stage of this was the joint training of vets and prospective AI technicians at a four-day AI training session in Chisamba in June hosted by Zammilk. Farmer trainings will commence in July.

### **Additional Achievements**

- The ongoing partnership between Agrivet and Dairy King is gaining momentum with Dairy King achieving its highest monthly purchase of milk in June since it began operating as a processor in 2006. During the quarter, the company increased smallholder purchases by 16% over last quarter, to 167,000 litres. Agrivet is continuing to introduce new services to its Dairy King suppliers including AI services and pregnancy testing. It has also seen increased demand for vet services from the company's Lusaka South dairy clients with 288 dairy-type animals currently receiving regular health visits from the Agrivet dairy extension agent.

### **Challenges**

- Alliances are based on trust and building these trust based relationships in the commercial sector takes time.

### **Activities planned for next quarter**

- PROFIT will continue to promote the concept of alliances between processors and vets to deliver a comprehensive series of training modules to smallholder suppliers. Delivery of the modular training commenced in June 2009 and initial response by the farmers who are paying for the training has been very encouraging.
- Although progress has been slow it is now hoped that Zammilk's first extension officer will commence field work in mid-July. The extension officer has been identified from within the company's current dairy team and it is hoped that Zammilk will steer this activity with minimal PROFIT intervention.

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## Dairy Industry Pathway:

### Theme 2: Stimulate the development of industry-critical support markets

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#### **Achievements against benchmarks**

**1) An increase in productivity per small holder dairy cow of at least 10 % over base line levels**

- Progress against this indicator will be established during the annual PROFIT on-farm survey in Q4 09

**2) An increase in profitability per small holder dairy cow of at least 10% over base line levels**

- Progress against this indicator will be established during the annual PROFIT on-farm survey in Q4 09

**3) An increased volume and value of productivity enhancing inputs sold to dairy farmers by at least 10% over base line levels**

- Progress against this indicator will be established during the annual PROFIT on-farm survey in Q4 09

**4) At least 1,000 dairy type animals accessing dairy herd health services**

- During the quarter, 1,554 dairy type animals were accessing various herd health programmes promoted by vets in Central, Southern and Copperbelt Provinces.

**5) At least 2,000 farmers trained in dairy herd health and productivity management**

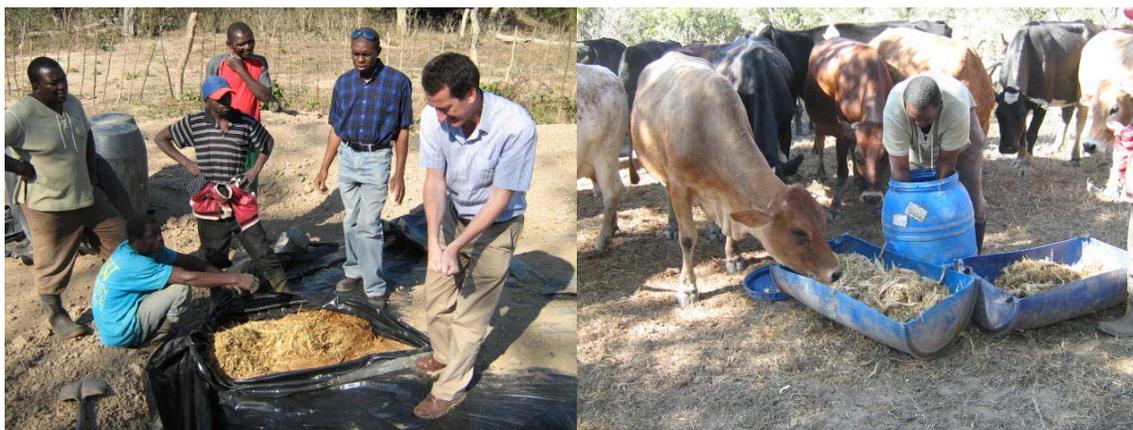
- The total number of farmers trained this quarter in herd and productivity management came to 1,167, comprising 890 men (76%) and 277 women (24%). The farmers were trained in a range of activities covering health and forage and dairy hygiene, by a combination of Parmalat, Dairy King, Agrivet, Leloisa, Dr Nawa, Gemini Vet, Tiger Feeds, National Milling, A&P International and Camco.
- This brings the cumulative number of dairy producers trained for FY 09 to 2,414.

**6) At least 90 farmer training sessions organized by private sector input/service providers**

- During the quarter, 449 farmers accessed some form of training in 18 separate events by private sector service providers related to improved productivity. The forage demonstration activity continued to provide a strong focus for provision of production enhancing technologies.
- Farmer visits to the silage demos has generated very high level of interest, in that small and medium-scale farmers now have an option for preparing forage for the dry season using affordable chopping machines. Following these trainings, approximately 60 farmers

immediately made small silage pits, purchased plastic sheeting and molasses and attempted to make silage for the first time using the demonstration choppers. The concept of having a fodder bank is now an achievable target for many farmers who previously felt such an option was not available to them.

- Leloisa completed additional promotional visits to the Copperbelt with PROFIT support, and while distance and logistics continues to hamper growth, it is hoped an additional community of dairy farmers in Ndola South will join their health programme in July. The addition of a new dairy community with approximately another 200 animals on a herd health programme greatly increases the viability of continuity of service by Leliosa to the Ndola area.
- Initial feedback from Leloisa Veterinary Services on their newly appointed Community Livestock Assistants (CLAs) now working in the field in the Kabwe area is positive. One-off sales for the month of May were K687,000, but in June this had increased to K1,085,000. While this may seem small it should be remembered that this is in addition to prepaid herd health services in the same community totalling approximately K3,000,000 (\$600) each month. It is hoped that the presence of the CLA's will act as a catalyst for additional animals to join the existing HHP service available currently servicing 504 dairy-type animals.
- Leliosa carried out a residential 4-day AI training course in June and PROFIT covered the cost of three junior vets to attend. These vets are now confident that they can offer AI as an additional service – which offers another income stream for their practice.
- Agrivet continues to see growth in interest in one-off services provided by their extension agent to dairy farmers in Lusaka South and West. Currently 288 dairy type animals are receiving regular visits and services in these areas.



*A practical demonstration of silage making (left) and dairy animals being fed silage on a smallholder farm in Chisamba, May 09*

### **Challenges**

- Lack of practical know-how within the dairy sector provides a serious impediment to private sector-driven promotion of improved farming practices.

### **Activities planned for next quarter**

- Continued expansion of numbers of animals under herd health contracts and participating vets.
- Ongoing training by Parmalat using the Basic Guide to Dairy Farming training modules will continue through the next quarter with scheduled training dates already in place.
- Continuation of the dry season forage training.
- First heat detection training for farmers by vets in different areas launching a drive to make semen more readily available to smallholder dairy farmers.
- Following a visit to South Africa to inspect mobile spraying races, it is intended to import a number of these units, subject to availability of project funds, for trial and demonstration purposes. The locally fabricated prototype will be ready for use during this quarter. Vets have shown considerable interest in trialling these units in various cattle dense locations.
- Saro and Camco have indicated that they will demonstrate their silage chopping machines on their stands at forthcoming agricultural shows including Ndola and Lusaka trade fairs. As a result of a high number of enquires Camco has imported 15 chopping units which will be on sale from early July. This represents a significant commitment in terms as confidence that there is a demand for this product most of which is expected to come from the dairy sector.

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### **Dairy Industry Pathway: Theme 3**

#### **Improving output markets by developing and enforcing process standards**

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### **Achievements against benchmarks**

#### ***1) At least 6 processors engaged in improving and /or value added processing and production of dairy products.***

- Dairy King has received their packaging equipment procured under the PROFIT Dairy Industry Development Fund. Partial commissioning of the equipment has yielded favourable results with packaging times being reduced by up to 50% by increasing the ability to take in and process additional raw milk, which was previously constrained by the manual bottling process. It is anticipated that the company will increase raw milk intake by another 20% now this additional equipment has been installed. Completion of equipment installation and the launch of the new innovative packaging designs are scheduled for the end of July / August.
- Nice Products continues to develop new products to compliment their existing product range. 'Steri-milk', a three month shelf stable product will be ready for the market over the next quarter and development continues on a three month shelf stable yoghurt and a milk / juice blend.
- During the quarter, ongoing technical support continued to processors in improving product quality and looking at alternative products to complement existing product lines.

Lake International continues to work with three processors in new product development and improvement of existing product lines.

- A visit to South Africa was made by PROFIT technical staff to discuss with Lake International the provision of training courses in the next quarter on a production quality management programme for dairy laboratory technicians.

**2) At least four processors adopting improved process technologies.**

- Diamondale is in the process of remodelling its raw milk reception area, giving greater storage capacity and flexibility when handling product.

**3) At least four processors will have functional in-house laboratories.**

- Nice Products has begun the revamping of their laboratory to cater for the new products being developed. Due to the nature of these products a sterile room is being established and new laboratory equipment is being introduced.
- Five processors now have functional in-house laboratories: Nice, Parmalat, Dairy King, Diamondale, Zammilk

**4) One independent laboratory commissioning a dairy testing service.**

- Due to budget constraints this programme with Vetlab was put on hold. However it is hoped that the procurement can move forward in the next quarter.

**Additional Achievements**

- Zambia Bureau of Standards held two food safety training session over this quarter, training an additional 45 processing workers, bringing the total number of workers trained to date to 156.
- ZDPA hired a new Administrative Executive who commenced work early June. With the new board in place the association continues to gain credibility within the processors and input suppliers.
- Both Agri-inspec and the Steadman Group presented their reports at a ZDPA dairy stakeholders meeting during the month of May. The Agri-inspec report covered the illegal / undervalued products crossing into Zambia and named the various offenders. Due to the sensitive information in this document the ZDPA board choose to circulate it internally before making a decision on the way forward at the next board meeting. The Steadman report identified potential gaps and opportunities in the dairy market that were waiting to be exploited. It is encouraging to note that many of the processors are now using this report as a marketing tool to increase their sales.

**Challenges**

- Despite a growing dairy market, processors are still reluctant or slow to invest the required capital in product upgrading and safety processes
- Poor regulatory practices reduce the incentives for processors to improve products quality.

### Activities planned for next quarter

- Focusing on the Steadman report work on new initiatives to assist processor to increase sales potential, from merchandising through to promotional activities.
- Following on from this initiative, work will continue with ZDPA to promote it as a recognised collective voice for the dairy industry.

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## Dairy Industry Pathway: Theme 4

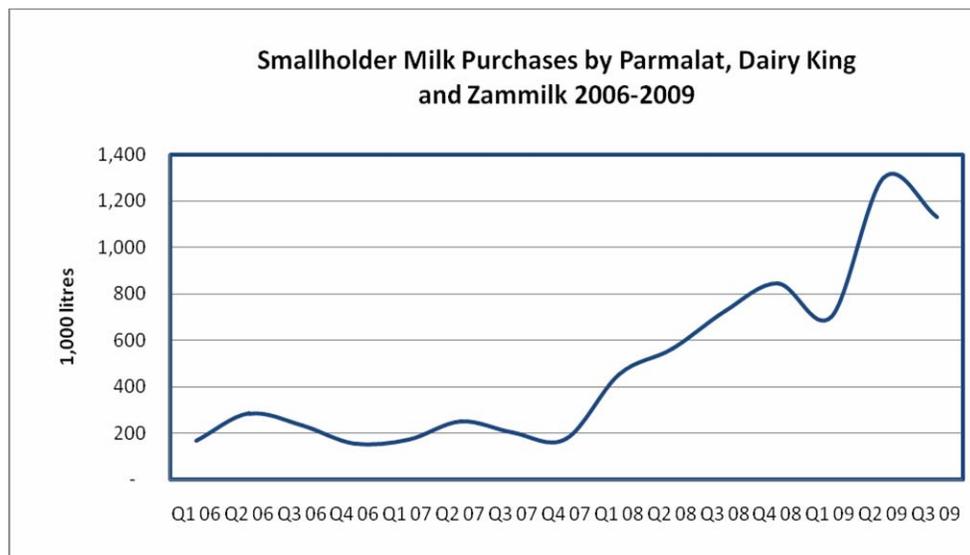
### Increasing the contribution of smallholder suppliers to the formal milk market

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#### Achievements against benchmarks

##### **1) Increase the volume of milk collected by processors from small scale dairy farmers by at least 250,000 litres**

- During the quarter, 1,129,000 litres of milk was collected from smallholders by the three commercial processors working with smallholders - Parmalat, Dairy King and Zammilk. This represents a 13% drop in volumes since the last reporting quarter, which is to be expected due to a traditional drop in productivity with the onset of the dry season and a reduction in feed availability. However, this *volume is 56% greater* than that reported for the same quarter of 2008



- In June, Dairy King purchased its highest monthly volume of milk (64,000 litres) since the company started operations, all from smallholders.
- Parmalat's new Mkushi collection route was launched in June from a new purpose-built milk collection centre, which provides an aggregation point for smallholder and commercial farmers in an area previously not serviced by Parmalat.

- The reported peak off take equates to *almost \$600,000 per quarter* in milk sales, farm gate revenue.

**2) Increase the proportion of raw milk sourced from smallholder by targeted processors by at least 12%.**

- 7% of Zammilk's intake was produced by small holder farmers, which is less than the 8% recorded last quarter, and to be expected with the seasonal reduction in small scale production and increase in commercial production. Parmalat is reporting a split of 75% commercial, 25% small scale volumes which is an increase on last year's figures, and the company has also observed a much reduced drop-off in smallholder volumes over previous years.

**3) At least \$200,000 of finance /capital granted to processing sector by PROFIT Dairy Industry Development Fund in support of smallholder integration**

- Due to budget constraints this programme was put on hold during the quarter. Additional projects are in the procurement stage awaiting the release of funding.

**Activities planned for next quarter**

- Ongoing collaboration with the private sector to establish their own milk collection systems in strategic rural locations
- Activities related to the two new private sector Milk Collection Centres under construction in the Copperbelt and Southern regions slowed down as farmers focused their attention on harvesting crops. It is anticipated that these centres will be operational over the next quarter.
- Continued collaboration with the private sector to increase milk collection and transport logistics.
- Facilitate and support the training of a refrigeration technician to service and maintain Southern Province refrigerated bulking centres in collaboration with Parmalat.

**Achievements against benchmarks**

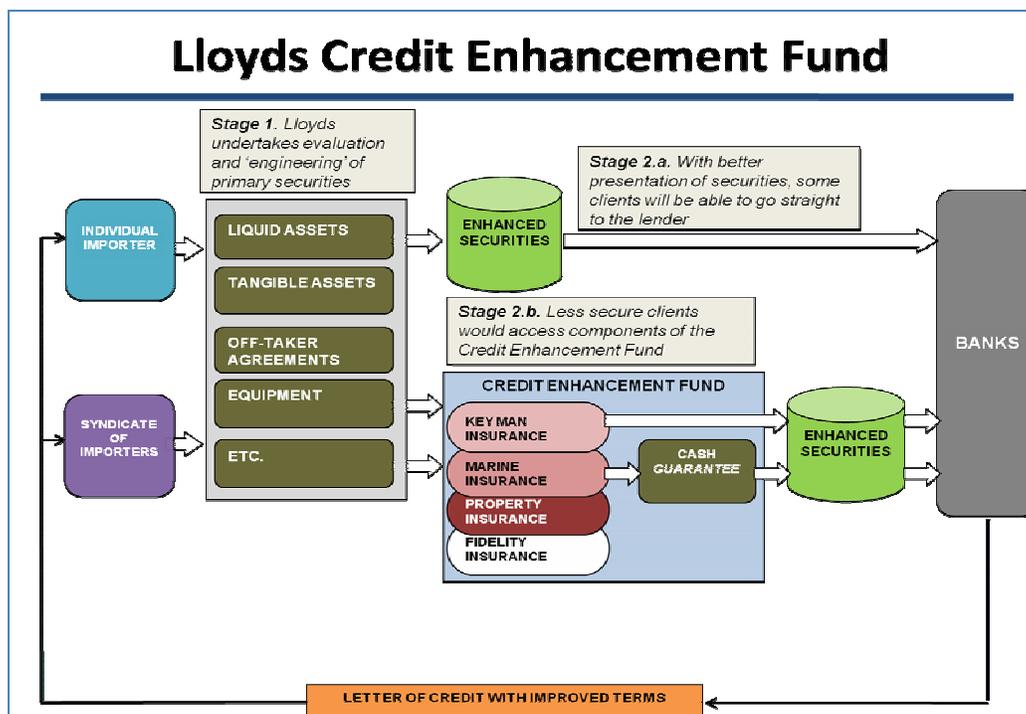
**1) One or more banks making significant efforts to engage the agricultural and SME markets, and investing in staff capacity to operate in these markets**

- PROFIT has continued to work closely with ZANACO in following up on the major agricultural finance training that the project undertook in the previous quarter, particularly in relation to the bank's Emergent Farmer Programme
- No new banks indicated a willingness to engage in the agricultural market, but PROFIT has been working with Lloyds Financials on developing a mechanism for warehouse receipt lending through ZAMACE
- In recognition of the difficulties faced by the agricultural sector in accessing commercial credit, PROFIT and Lloyds designed a finance mechanism that will effectively unlock liquidity in the agricultural retail sector without creating market distortions. The result has been the establishment of the Lloyds Credit Enhancement Fund (LCEF), a Capital Markets Instrument that has the potential to radically improve the credit environment for agricultural importers and has the endorsement of several of the major local banks.

The LCEF has been designed in a way that provides clients wishing to access the facility with several options, ranging from the 'light touch' of the first financial planning stage to the various risk mitigation strategies deployed by the Fund itself. The two stages of the initiative are as follows:

**i) Collateral Analysis and Presentation Stage:** Clients undertake a series of consultative meetings with Lloyds in order to analyse their primary securities and their business plan, and ensure that these are presented to the bank in an attractive and solid a state as is possible. After this stage, some clients may be able to proceed directly to the financial market to access credit. Other clients may need to enhance their securities at the next stage. This initial stage also eliminates those candidates deemed insufficiently secure to proceed, thus providing a critical screening function on behalf of the financial sector.

**ii) Credit Enhancement Fund:** Clients requiring further securities can access through the Fund a series of insurance policies on both their businesses and their intended imports to ensure further comfort to the potential lender. At a later stage, a cash guarantee facility can be added to the portfolio to provide a third level of security.



**Figure 4: Schematic Illustration of the Lloyds Credit Enhancement Fund**

The oversight that Lloyds provides, both at application and during the loan period, acts as a 'moral guarantee' on the client and the insurance package is determined to be a substantial level of security that can motivate credit decisions on potentially higher risk clients.

The Fund will be operational during the next quarter, with seed capital from PROFIT and funding from the Norwegian Embassy through the CFU. Over time it is intended that the Fund becomes partially or wholly self sufficient through payment for the services by the Fund's clients, and investment by the Fund in the money market.

**2) Two leasing vendor agreements in operation with at least 10 deals completed with emergent farmers seeking to develop a service-based revenue stream.**

- The global financial crisis hit severely the financing capacity of ICC, with whom Farmnet operated a vendor agreement. As a result the leasing company has made no further effort to extend leases into the SME market.

**3) At least one alternative financing model developed through which smaller businesses can access longer term developmental financing**

- Following on from PROFIT's provision of technical assistance to the development of a business plan for the Lusaka-based African Carbon Credit Exchange (ACCE) over the previous quarter, PROFIT provided the Exchange with two short term consultants, both experts in the carbon market, to assist the Exchange to define its role in the African carbon market. Preliminary findings indicate a strong niche position as a multi-role player

in the Zambian carbon market providing awareness, advocacy, advisory services, project development services and financial services as a first stage to the development of a structured market place. While there are multiple international buyers seeking African credits the key constraint to the development of this market is a critical lack of supply, so the primary role for the Exchange will be assisting the supply-side to develop through the provision of business development services.

A secondary component of the technical assistance to the Exchange was an analysis of the market-readiness of Zambia in relation to the carbon market. Initial findings identified a significant potential, particularly in the agriculture and forestry related voluntary markets, but there is a critical need to develop methodologies that would lead to creating products that conform to the global carbon market standards.

The development of products in the agricultural sector holds the most interest for PROFIT, and the project will look, over the next quarter, at ways in which methodologies can be created around conservation agriculture whereby practitioners can, through an intermediary, 'sell' credits and benefit financially over the long term adoption and compliance. A conservation group in Zambia is already leading the way in terms of developing a framework for accessing carbon credits through agro-forestry, which will have tremendous implications for the sector in the future.

**4) At least one outgrower scheme is completing the majority of its transactions with smallholders across the m-banking platform.**

- At the start of the marketing season, Dunavant was intending to pay the members of its Gold Club preferred supplier network through the Mobile Transactions payment platform. Payments had not yet started by the end of the reporting period but the system was fully operational.

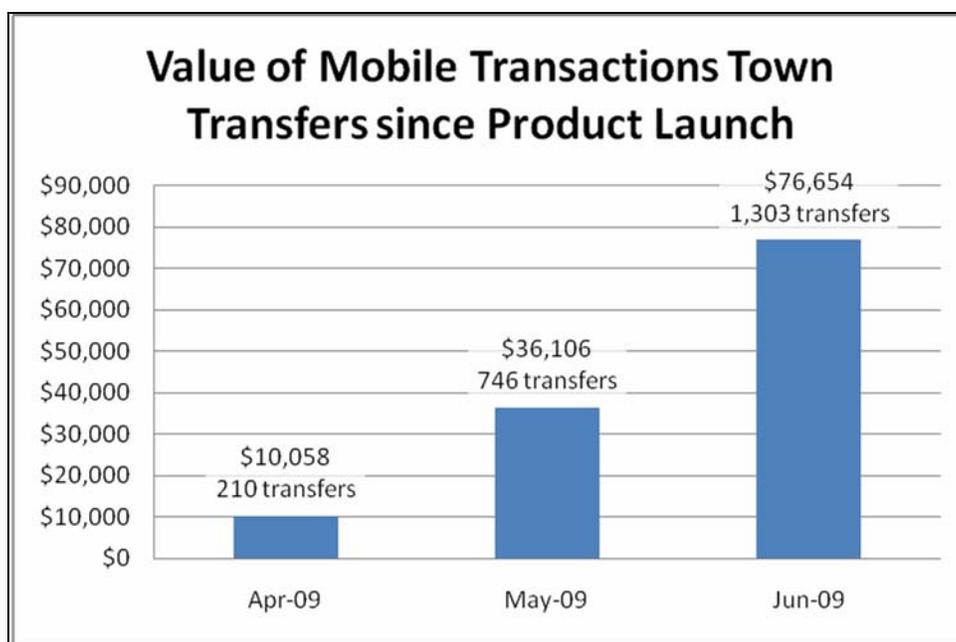
**5) At least 3 ZAMACE warehouse receipts issued and financing secured against them**

- PROFIT continues to work with ZANACO and Lloyds Financials to develop a process that could result in a number of warehouse receipts being financed during the 2009 harvest season.

**Additional Achievements**

- Following on from last quarter's provision of technical assistance to the Bank of Zambia to develop enabling legislation around leasing, the draft leasing law developed by the legal consultant is going through the Bank of Zambia internal review processes and will soon be tabled to the FSDP Legal Working Group for final input, with the intention of submitting it to Government during the next two quarters.
- After three years of development facilitated by PROFIT and final Bank of Zambia approval in November 2008, the Mobile Transactions Zambia Ltd e-payments platform is now fully operational. Over 120 agents are engaged in the sale of the various products using the platform (town transfers, bankless accounts and e-payments). With the failure of the reformed government agricultural inputs subsidy programme to materialise, PROFIT is still engaged with Mobile Transactions to develop an e-voucher system to be

piloted by the Conservation Farming Unit and three other donors, with a view to generating a track record to present to government next year.



#### **Challenges**

- The global financial crisis is having a serious impact on liquidity within the Zambian banking sector, with commercial finance more and more difficult to obtain. This in turn is placing serious strain on various levels of the agricultural market and making banks even less willing to venture into this market.

#### **Activities planned for next quarter**

- A major priority, now that ZAMACE has certified warehouses shortly taking in deposits of grain, will be working with the two financial institutions that are interested in driving warehouse receipt finance to develop a workable model for engagement with ZAMACE in this sector.
- The strategic plan for ACCE will be drawn up by Lloyds and the PROFIT consultants in July, and PROFIT will review where best to put future resources towards the development of the carbon market, especially in relation to the agricultural sector.
- PROFIT will develop a grant mechanism to assist in the start up of the Lloyds Credit Enhancement Fund.
- PROFIT will begin working with Mobile Transactions on developing the capacity of their rural agents to deliver financial services, and also facilitate the roll-out of the e-voucher system for donor input subsidy programmes.

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## Administration and Field Team management: Theme 1:

### Fostering improved knowledge management within market facilitation field team

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#### **Achievements against benchmarks**

##### **1) At least 2 Staff management trainings conducted**

- The second staff management training of the year has been planned for the either the last week of the month of July or the first week of August, 2009 and will be combined with the PROFIT regional review and planning meeting as a way of targeting the project resources to achieve increased impact of scale in the remaining time frame.

##### **2) At least 16 Regional Team meetings conducted**

- Due to budget constraints, the regional staff meetings for the quarter under review were pushed forward to coincide with the staff management and training meeting in Lusaka. However, the focus for this quarter was to build the capacity of the team members to strengthen their 'coaching' approach. This has improved the ability of the firms to enhance team work as the platform to develop improvements to their competitiveness. To date 7 regional meetings have been conducted.

##### **3) Staff Annual evaluation conducted**

- Achieved in the first quarter. Staff annual evaluation for this year is in progress and will be completed in the fourth quarter.

##### **4) Staff performance incentives/awards schemes implementation**

- The staff performance incentives/awards schemes is progressing well and during the quarter under review were as below:

<b>Staff</b>	<b>Award</b>	<b>Description</b>
Choolwe Kagoli	Innovation of the Months Award	Community Sales Days
Bernard Hauma	Innovation of the Months Award	Market day concept

##### **5) Conduct regular field technical backstopping**

- The technical team has intensified its backstopping with the field staff as a way of providing both technical and supervisory roles. The focus for this quarter was to build the skill base to facilitate the internal firm management capacity building, forecasting, strategic planning and in – community promotions.

#### **6) Staff exchange visits continue to be implemented**

- Staff exchange visits continue to be implemented. One key exchange visit between Cholwe and Mabvuto resulted into the creation of new agent network among the seed companies such as Pannar, Zamseed and Pioneer, and the opening of new business opportunities through the service platform in Kabwe and the surrounding areas.
- PROFIT field staff played host to 5 key staff from Oikonomos Foundation of Malawi who eager to learn and adopt the PROFIT market facilitation methodology based on the value chain approach. This is in the quest to influence other donor projects to engage in market facilitation approach. The visit was successful and the organisation is looking forward to hosting the PROFIT delegation to conduct internal capacity build of their project staff.
- RIU (Research In Use) has approach PROFIT to collaborate in the implementation of a Conservation Farming initiative to facilitate the private sector to achieve the following;
  - Enhance the legume seed supply/demand system using the e-voucher system
  - Enhance the supply of /demand for conservation agriculture implements

#### **7) All component managers maintain effective performance and budget management practice**

- Entire staff now more aware of budget and budgetary constraints. Each staff member has a budget attached to the work plan output targets and is more actively involved in ensuring that resources are handled effectively.

#### **8) Full accounting and budget MIS developed and implemented as standard field practice**

- Achieved while still working to speed up full budget monitor reports to more fully report budget actual on a timely basis.

#### **9) Monthly accounts files submitted by 5<sup>th</sup> of each month with hard copy transmission by 15<sup>th</sup>**

- Achieved

#### **10) Continued implementation of ODC cost management systems complimenting monthly MIS reporting**

- Achieved

#### **11) Conclude auction of obsolete equipment during Q1 FY 09**

- Awaiting ZRA approval of the auction process

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## Monitoring and Evaluation: Theme 1

### Fostering the culture of learning at every stage of the pathway

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#### **Achievements against benchmarks**

##### ***1) Data quality assessment reports concluded which will identify data collection gaps and data collection training needs.***

- Continued monthly communications and feedback with all Business Advisors (BAs) as a way of regular checking and verification of monthly data submitted to head office in order to ensure consistent and quality data is being collected. Written and verbal feedback given to the business advisors as a way of enhancing learning

##### ***2) Quantitative tool revised and in use***

- Monthly quantitative tool in use and BAs improving on the usage of the tool

##### ***3) Qualitative tool revised abridged and in use***

- Qualitative tool fully in use by the BAs. Feedback provided within teams and head office to ensure data collected using this tool is used for decision making at regional team and head office levels

##### ***4) At least one formal assessment of how BA's are utilizing the skills and knowledge to facilitate the development of the private sector***

- Head office staff is involved in the continual training of BAs as they continue to do their work. BAs are assisted to understand what roles they need to play at this time in the project as well as the stage of the pathway.

##### ***5) Quarterly and annual reports concluded on time***

- One quarterly report concluded for the third quarter of 2009 bringing the number of quarterly reports done for FY 09 to three (3).

#### **Additional Achievements**

- One monthly narrative report review meetings done with portfolio managers as a way of enhancing follow up on issues that BAs raise every month and on which they need support.
- 3 firms (Pannar, Zamseed and MRI) are utilising data collection tools and managing databases on the agent networks.

#### **Challenges**

- Quality of data emanating from BAs and other partners still needs to be improved
- Inadequate use of administrative and monitoring tools by the firm staff to aid in agent network monitoring

### **Activities planned for next quarter**

- Market facilitation and business trainings
  - Data quality assessments to be done in Mumbwa and Chongwe
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## **Monitoring and Evaluation: Theme 2**

### **Improving private sector firms' ability to monitor and evaluate their own agent networks**

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### **Achievements against benchmarks**

#### **1) *At least 20 firms will have implemented internal monitoring and evaluation systems***

- 10 agricultural retail firms and 3 vet firms conducted agent reviews to assess the performance of the agent networks. Some firms have decentralised their agent network management operations by involving more of their shop managers to be monitoring the agent networks.

#### **2) *Complete the firm agent network management manual***

- Firm agent network manual completed

#### **3) *Integration of firm Monitoring and Evaluation section into the agent network manual***

- Firm M&E agent network monitoring segment finalised and incorporated in agent network manual

### **Additional Achievements**

- Firms continue to monitor their agent networks using performance reviews as a way of rewarding the best performing agents. For example, Zamseed rewarded their agents using the performance criteria.

### **Challenges**

- Ensuring that the firms are following and valuing the agent management systems that they develop
- Inadequate monitoring of the agent and CLW networks by agricultural retail firms and vets leads to failure to get a more accurate picture of the system.

### **Activities planned for next quarter**

- 4 firms to have developed M&E Systems
- Training firm staff in basic monitoring and evaluation and use of the agent management handbook

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## Monitoring and Evaluation: Theme 3

Intensify internal evaluation of impact as measured by results of behaviour change and develop improved methods of knowledge dissemination

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### **Achievements against benchmarks**

#### ***1) Four household surveys completed***

- One dairy survey conducted over the quarter and report to be finalised and circulated in the next quarter

#### ***2) One detailed report on the household surveys compiled – feeding into the documentary process***

- To be done in the fourth quarter of FY 09.

#### ***3) Increased knowledge among BAs and firms staff in answering the “so-what” question***

- Monthly impact survey report findings finalized and circulated

#### ***4) At least one digital video documentary produced highlighting PROFIT intervention method and results***

- The video production team has continued to film project activities to input into the final end-of-project documentary.

#### ***5) At least 20 notes from the field produced and disseminated***

- Four notes from the field have been drafted and will be finalised and circulated in the next quarter

### **Challenges**

- Ensuring that an accurate picture reflecting the impact of the project is presented especially focusing on the impact that private sector has on the SHs

### **Activities planned for next quarter**

- Video production team to continue capturing field scenarios to input into the final video documentary showing the results of the PROFIT interventions
- Produce and disseminate five notes from the field
- One household survey to be done by the end of the quarter

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## HIV and AIDS support development: Theme 1

### Increasing Community Awareness about HIV and AIDS – Implementation of a peer education programme

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#### **Achievements against benchmarks**

**1) At least 10,000 people will be reached through the peer education programme in each district by the end of the project period – cumulative at least 30,000**

District	Males reached	Females reached	Total reached	Cumulative Total
Mumbwa	0	0	0	2,551
Mkushi	465	637	1,102	8,440
Chama	1,308	1,529	2,837	9,881
Total	1,773	2,166	3,939	20,872

#### **Additional Achievements**

- During the quarter under review, peer educators continued to hold one-on-one discussions, as well as group discussions, with the various communities where they have been trained.
- Reports were collected from two districts only due to funding constraints. Data for the remaining areas will need to be reported retrospectively as the reports are collected.
- People reached in two the districts reached were as follows:

#### **Challenges**

- Funding has been reduced for the period, although the project length has been extended. This means it was not possible to conduct all the planned supervisory visits. Figures for the remaining project areas will be reported retrospectively.
- During the supervisory visit conducted in Chama, peer educators reported that a lack of transport means they are unable to reach all the people in their catchment areas because some villages are 20km away from the depots. Two proposals for future consideration are purchase of bicycles and training greater numbers of peer educators to reach all areas.
- Peer educators expressed concern over the lack of bags for carrying their materials, reporting formats and condoms. At present, funds are not available for the procurement such bags.

### **Activities planned for next quarter**

- On-going peer education activities in each of the districts: peer educators in Chama were given a target of sensitizing a further 5,000 people by the end of project period. There are 50 peer educators in Chama District, and each peer educator was asked to sensitize least 100 people each by the end of September 2009 through the following activities:
    - Church gatherings;
    - Working with Rural Health Centre staff;
    - Conducting door-to-door sensitizations;
    - Organising group meetings in villages;
    - Conducting sensitization meetings through sports activities in schools and adult clubs;
    - Conducting sensitisations at traditional ceremonies; and
    - Conducting meetings at farmer's general meetings in the area.
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## **HIV and AIDS development: Theme 2**

### **Building the capacity of the program implementers within the community**

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#### **Achievements against benchmarks**

##### ***1) At least five supervisory visits in Chama, four visits in Mkushi and four visits in Mumbwa***

- One supervisory visit was conducted for Chama – technical support was provided to the peer educators during the visit.

##### ***2) Ongoing technical support provided to 123 peer educators***

- Achieved

#### **Challenges**

- A change of staff within the project – the previous Community Coordinator from Afya Mzuri is now no longer with the organization – has caused a disruption, particularly in view of the limited funding, as only one supervisory visit could be conducted during the period.
- The focal point person in Chama is unable to visit peer educators frequently due to the large distances of up to 350km involved (particularly in the rainy season). As a result there is no close supervision in the implementation of the peer education programme. One suggestion made during the Chama visit was to involve staff at the rural health centres in supervising the peers. The session records would be more likely submitted on time because the rural health centre staff travel frequently to the district office, monitoring of people that are referred by peer educators for treatment care and support could be done systematically, and procurement and distribution of condoms would be done by the rural health centres.

### **Activities planned for next quarter**

- Supervisory visits and data collection for Mkushi, Mumbwa and Chama.

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## HIV and AIDS development: Theme 3

### Increasing uptake of treatment, care and support services by community members

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#### **Achievements against benchmarks**

- Peer educator session records have now been revised and data is being collected on referrals. During the quarter under review, data was collected from Chama and Mkushi as follows:

District	STI	VCT	ART	PC	OVC
Chama	100	541	135	118	420
Mkushi	67	205	20	0	0
<b>TOTAL</b>	167	746	155	118	420

- In total, **1,606** referrals were made for sexually transmitted infection (STI) diagnosis and / or treatment, counselling and testing for HIV (VCT), anti-retroviral therapy (ART), palliative care (PC), and support and / or more information regarding care for orphans and vulnerable children (OVCs).

#### **Challenges**

- There are no specific targets set for this area of the programme.
- There has been no training or support for follow-up to see if people referred actually use available services – this is not within the project plan and is perhaps for future consideration.
- Peer educators in all the sites complained of inadequate supplies of condoms. The coordinator advised peer educators to register at the nearest rural health centre, so that they can procure the condoms from the centres rather than waiting until a supervisory visit is conducted by Afya Mzuri. An average of 200 condoms was given to each peer educator as an emergency stock.
- Clients in the communities of Kanyerere and Chibale that have tested HIV positive have to travel 120km to 70km respectively on foot to access ART. The lack of ART in their communities and transportation makes it difficult for them to get consistent treatment. The Finance and Grants Manager brought this issue up in the PEPFAR All COPs meeting and is currently working with other partners to ensure these clients can access ART.