



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

DRAFT WORKPLAN

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



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SECTION I -- INTRODUCTION

A. PROFIT PROGRAM INTRODUCTION

The overarching program goal of the Production, Finance, and Improved Technology Program (PROFIT) is to increase industry growth while assuring meaningful poverty reduction at the household level. To achieve this growth with poverty reduction goal, PROFIT will:

- improve the competitiveness of industries in which large numbers of MSEs participate and might benefit
- foster the sustainability of competitiveness so as to enable firms and industries to respond to market demands both in the short and long run
- increase the breadth and depth of benefits at the industry, MSE, and household levels

To accomplish these objectives PROFIT will build off of leading edge approaches to private sector development to foster economic growth that is broader, deeper and more sustainable. PROFIT will target high potential industries that can compete nationally, regionally, and/or internationally and include large numbers of MSEs. PROFIT's intervention framework is built upon a set of principles (provided to the right) that are defined to build and catalyze local capacities to improve the competitiveness of the selected industries.

Based on these principles, PROFIT will use the following framework to target key industries, identify binding constraints, and prioritize and guide intervention. The framework is viewed within the context of the value chain and/or subsector and includes:

1. Subsector or Industry Selection –

Targeting high potential industries is critical to insuring a solid return on USAID's investments. Clear and transparent selection criteria must be used to identify and select an industry. PROFIT will use three broad selection criteria in which numerous sub-criteria will be used to maximize returns for PROFIT investments. Industry targeting is a dynamic process, and over time it is assumed that new opportunities will present themselves. Special emphasis will be put on developments associated with the work of MATEP in the field of export related industry to exploit potential synergies between the two projects. The broad categories of selection include:

- ◆ Growth potential – ability to turn competitive advantage into competitiveness in the near, medium, and/or long term
- ◆ Scale of results/impact – at both the firm and industry levels and defined by income gains, asset development, and sustainability.
- ◆ Industry leadership – Interested and committed leadership that understands the key role the MSEs play and are willing to work together to address industry-wide constraints

2. Identifying competitive advantage -- End market demand characteristics determine how or even whether an MSE dominated industry can achieve competitive advantage in terms of:

- ◆ Efficiency – the price at which the industry can get an acceptable (i.e., minimal quality requirements) product or service into the hands of the consumer

PROFIT Intervention Principles

- work to assure the competitiveness of the whole industry over time while assuring that growing numbers of MSEs contribute and benefit
- foster a reduced role for governments, donors, and project implementers -- who should act as market 'facilitators' rather than players -- in combination with an expanded role for private firms in addressing industry constraints;
- intervene appropriately to foster increased industry and firm capacity to resolve recurrent constraints on an on-going basis – by adhering to a sequencing of intervention options that first looks for "light touch" (i.e., interventions that mediate misunderstandings and link firms by acting as a moral guarantor) interventions and progressing to the last option which would be using project funds to buy-down excessive risks that are limiting critical transactions and linkages; and
- adhere to a carefully planned exit strategy, so that impacts are sustainable.

- ◆ Differentiation – the uniqueness of the product or services in terms of its price/quality ratio and brandability (i.e., fair trade, social issue, design and/or purchase cache, etc.) relative to other competitive products or services.
 - ◆ Demand – the ability of the industry to affect change in demand characteristics to better meet local capacities (e.g., shift in demand from commodity coffee to specialty coffee, meeting expectations even at the supplier level, etc.).
3. **Designing a commercial upgrading strategy for the value chain/industry to turn competitive advantage into competitiveness** -- Industries must have the ability to resolve key constraints and take advantage of opportunities if they are to make their competitive advantage pay off in terms of real growth. In order to accomplish this projects must foster commercially grounded mechanisms that can address critical constraints and take advantage of opportunities so that an industry will achieve the most appropriate combination of efficiency, differentiation, and effect on demand for a given end market. A commercial upgrading strategy prioritizes the constraints and opportunities based on an understanding of the whole value chain, including the enabling environment, and the vision of competitive industry. A commercial upgrading strategy targets constraints and opportunities in the following areas:
- ◆ Enabling environment – the rules that incentivize small firm participation in markets that are affected by international standard and treaties, national policies and practices, and local norms and enforcement practices. While this will not be a focus of PROFIT, the program will work closely with MATEP to assure that a broad industry perspective is considered and newly emerging constraints are identified.
 - ◆ Vertical linkages – how firms along a value chain interact that allows or does not allow risks to be shared; information, skills, and know-how to be pushed from the ones that have it to the ones that need it; and the industry to affect change in demand characteristics. The links can be defined in terms of up the chain – between international buyers and national exporters – as well as down the chain – in the form of backward linkages to small producers and/or producer groups;
 - ◆ Horizontal linkages/cooperation – how like firms (i.e., performing the same function along a value chain) interact with each other that allows or does not allow for joint constraints to be addressed such as high transaction costs, limited external economies, and limited innovation and learning;
 - ◆ Supporting markets – how markets for financial, sector specific and non-sector specific services/product function or do not function in order to allow MSEs to access inputs, capital, know-how, skill-sets, etc. that are required for them to contribute to and benefit from the competitiveness of an industry
4. **Ensuring the sustainability of competitiveness** – Achieving growth over time requires the ability of an industry to **respond** to changing market demands efficiently and effectively. The ability of an industry to respond effectively over time requires improvements in the nature and types of relationships, the way in which learning and innovation are valued, and breadth and depth of benefits.
- ◆ Relationships among firms in a chain matter. Relationships that are more transparent, longer-term, and focused on industry level goals are critical to an industry's ability to respond and adapt to the dynamic nature of demand.
 - ◆ Learning and innovation needs to be valued. Learning and innovation happen only when incentives are in place to encourage firms to invest in learning and/or risk adapting innovations. However, when learning and innovation are not an integral part of an industry's norms, that industry's competitive position cannot be sustained.
 - ◆ Benefits must be broadened and deepened. Benefits accrue in terms of incomes and reduced risks. For industry's to maintain their competitiveness, benefits must be sufficient enough to incentivize changing behavior patterns, taking on new risks, and adopting innovations.

B. PROFIT INTERVENTION FRAMEWORK

PROFIT's value chain/industry-based framework is detailed below:

1. Industry Selection

The table below provides detailed sub-criteria for the three main criteria provided in the previous section– potential industry growth, scale of results/impacts, and industry leadership:

Criteria	Description
Growth Potential -- Ability to Turn Competitive Advantage into Competitiveness	
Market Demand and Growth Potential	<ul style="list-style-type: none"> Evidence of strong effective demand for products being produced in a range of markets (local, national, regional, and/or international) Buyers have ready market for products but are unable to meet demand Industry has ability to compete against regional and international competitors
Match between local capacities and nature of competitive advantage	<ul style="list-style-type: none"> Local capacities match characteristics of demand that define competitive advantage (e.g., efficiency, differentiation, and/or affect on demand) in short, medium, and/or long-term
Potential For Achieving Competitiveness	<ul style="list-style-type: none"> The main market for the product or service is growing and has long-term potential Potential for technologies or management systems to increase production and/or services delivery efficiency Potential for technologies, management systems, or marketing efforts to effectively differentiate products Potential for industry to increase and stabilize demand
Opportunities For Linkages	<ul style="list-style-type: none"> Potential forward/backward linkages between large and small enterprise. Large buyers looking for more efficient ways to engage MSEs as a source of supply. Potential for third party service and products that support the growth of an industry (i.e., production inputs, finance, sector-specific services, and non-sector specific services)
Government or Donor Interest / Existing Support Programs	<ul style="list-style-type: none"> Positive government interest in a subsector (i.e., limited interventionist policies, low levels of or no subsidies, potential for positive linkages with government services, and favorable policies) Existing programs that can provide synergy and complementary activities.
Ability to Achieve Scale of Results/Impact	
Number of MSEs	<ul style="list-style-type: none"> Number of MSEs operating in the subsector Potential for increases in the number of MSEs that can participate and benefit
Upgrading Potential	<ul style="list-style-type: none"> Potential for MSEs to upgrade their products and production processes Potential for MSEs to deliver higher value added functions along the value chain Potential for MSEs to move to a higher value added channel within a subsector.
Potential for Broader and Deeper Increases in Income and Wealth Creation	<ul style="list-style-type: none"> Potential for increasing revenues at the industry and firm level Potential for increasing returns on the MSE assets (i.e., land, animals, location, and capital (i.e., financial, labor, social, and human). Potential for increasing incomes and wealth in the near, medium, and longer terms

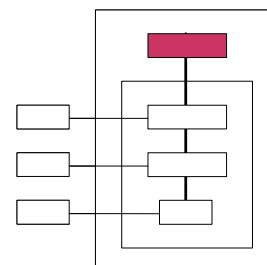
Criteria	Description
Potential For Employment Generation	<ul style="list-style-type: none"> Potential for enterprises (large and small) to create new employment opportunities as the subsector develops or expands.
Industry Leadership	
Nature of Industry Leadership with MSEs	<ul style="list-style-type: none"> Willingness of lead firms to invest in industry growth including MSE producers (i.e., embedded services, financial services, etc.) Transparency of relationships with MSEs (i.e., clarity of responsibilities through contracts/written terms and consistency of enforcement, etc.) Commitment and willingness to address social constraints (i.e., HIV, gender bias, cash-flow needs, etc.) to MSE participation and benefit in the long-term
Nature of Industry Leadership for Broader Industry Growth	<ul style="list-style-type: none"> Long-term commitment to industry and Zambia Interest in fostering more efficient third party services Willingness to work with other lead firms to solve industry-wide problems
Potential for Broader Industry Leadership	<ul style="list-style-type: none"> Number of lead firms Potential for increasing the number of strong lead firms in an industry

PROFIT industry selection activities include:

- Perform quick assessments of cotton, non-timber forest products (i.e., honey), livestock, tourism, horticulture, and small scale mining to determine high, medium, and lower priority industries for intervention design
- Determine which industries require additional value chain analysis to prioritize and target interventions
- Scan continually local and national private sector activity to identify high-potential emerging industries that may warrant targeted PROFIT support.
- Coordinate with MATEP on interim assessments and final industry selection

2. Identifying Competitive Advantage

End market channels for an industry can be local, regional, and/or international. The characteristics of a product or service that drive demand (i.e., efficiency, differentiation, and influence on demand) define how competitive advantage can be achieved. In addition, where products fall along a path from highly differentiated products/services to undifferentiated products/services will have a substantial impact on how or whether an industry can compete. Differentiated products/services typically can receive a premium, while undifferentiated products and services compete on their ability to achieve efficiency and scale. In highly distorted markets, Zambian MSE can compete and benefit even in undifferentiated market, but there are often time limitations. Industries that can affect change in demand to better fit their capacities can often extend (timeframe) or deepen (market share) their competitive position. PROFIT will assess where and how MSE dominated industries can achieve competitive advantage.



PROFIT competitive advantage assessment activities for all selected industries include:

- Assess key end market demand characteristics within the context of efficiency, differentiation, and ability to affect change in demand to determine the best potential for the selected industry(ies) to achieve competitive advantage
- Assess MSE capacities in terms of industry near, medium, and longer-term competitive advantage to determine how MSEs can maintain and improve their market position, accrue increased benefits, improve and expand their commercial relationships, and adopt learning and innovation as being to their business.
- Assess ways in which MSEs can take ownership of a product's or service's unique demand characteristics (geography, social, skill set, etc.) so that they can contribute to and benefit from the overall industry competitiveness.

- Coordinate with MATEP and lead firms in developing market strategies for accessing new regional and international markets in which MSEs can participate and benefit
- Coordinate with MATEP and lead firms in developing marketing strategies for changing any negative or limiting perceptions that regional and/or international market actors may have of Zambia

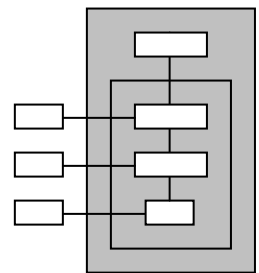
3. Commercially Upgrading the Industry to Realize Competitive Advantage

Commercially upgrading an industry requires an assessment and prioritization of critical constraints and opportunities along the value chain that limit the industry operationalizing its competitive advantage into real growth. The process of identifying and prioritizing interventions requires running all the constraints through filters that are defined by the vision for competitiveness and the potential impacts (relationships, learning, and benefits). The filters are defined within the context of the components of a value chain allowing PROFIT to target the underlying constraints. While PROFIT will identify and prioritize activities by component, all activities are part of a larger upgrading strategy for an industry. PROFIT's commercial upgrading strategy components include:

- **Enabling Environment**

Local economic development and legal and regulatory enforcement capacity

-- Local government efforts and enforcement practices affect the ability of the private sector to participate in and benefit from market opportunities. Poor local government operations and enforcement of legal and regulatory regimes increases transactions costs, informality, commitment failure risks, and shortens business cycles limiting investments in relationships and upgrading. PROFIT may engage in policy at a localized area when appropriate, but the focus of such activities will be to facilitate dialogue and coordinate with MATEP and other relevant organizations:



National policy assessment, reform and development, including private sector participation

--National policy development process, including the end policies can have dramatic effects on the functioning of markets and enterprises. Unclear or non-transparent processes for policy development limit incentives to effectively monitor and evaluate implementation and enforcement practices leading to a lack of accountability and increased corruption. PROFIT will work closely with MATEP to assure a broader industry perspective encompassing MSEs is incorporated in any advocacy efforts.

International agreements and market standards -- An increasingly important trend is the extent to which international agreement organizations such as WTO or private sector industry organizations like EUREPGAP are driving policies on how business is conducted even at local levels. PROFIT will have limited activities in this area except to assure that the effects on MSEs are well understood.

- **Inter-firm Cooperation and Coordination**

Vertical Linkages -- MSEs often are not connected to value chains that reach beyond their local community. Facilitating the establishment of these linkages on a rational and commercial basis is often one of the initial steps needed to provide MSEs access to more promising market opportunities.

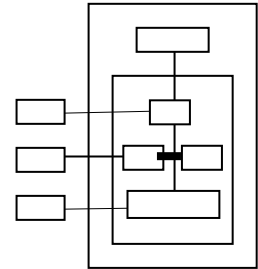
Lead firms including exporters and processors may not have adequate linkages to local, regional, and international markets. In particular, links to regional and export markets may be limited and or predatory where the lead firm has limited negotiating power.

PROFIT's vertical linkages activities will include:

- Assess the selected industries to identify the constraints and opportunities related to vertical inter-firm cooperation
- Work with lead firms to provide increased access to a range of new markets for MSEs including local, national, regional, and international;

- Work with lead firms to provide new information, skills, and know-how to MSEs;
- Work with lead firms to act as a catalyst for organizing MSEs to limit the effects of high transactions costs and lack of capacity to achieve economies of scale, including incorporating MSEs into larger production systems that provide production efficiencies, coordinates inputs, and organizes output collection;
- Work with lead firms and MSEs to establish effective subcontracting and forward contracting mechanisms that limit the amount of market risks facing MSEs and commitment failure risks (i.e., side selling) facing lead firms; and
- Work with lead firms and MSEs to assure MSEs meet their potential as an outsourced production resource that is less risky and more efficient than wholly-owned production resource.

Horizontal Linkages -- Although horizontal cooperation should be fostered at every level where a joint constraint arises, MSE cooperation is often required for MSE to contribute to and benefit from competitive industries. MSE cooperation can take the form of informal or formal groupings of MSEs, as well as networks of MSEs that are managed through a third party (e.g., lead firm, broker, trader, etc.). The key to gaining value from horizontal cooperation is the recognition of a joint constraint or constraints that require joint action. The type of intervention approach will be dependent on the end result from the cooperation and the unique cultural and market context in which the MSEs operate. Cooperation at trader and lead firm level needs to focus on issues of joint constraint. Cooperation that limits internal competition (i.e., price fixing, collusion on regional control) should be limited through increased competition through alternative links.



PROFIT's horizontal linkages activities will include:

- Assess the selected industries to identify the constraints and opportunities related to horizontal cooperation
- Facilitate cooperation that helps MSEs to deliver on quality and quantity requirements;
- Facilitate cooperation that reduces transaction costs by aggregating logistics requirements and reducing per unit costs of inputs by bulk purchases;
- Facilitate cooperation that fosters sharing of market information, establishes social capital based around shared market interests, generates learning, and allows for functional upgrading (i.e., moving to a higher value added function along the value chain).
- Facilitate cooperation that fosters MSEs to meet shared commitments to lead firms due to social pressure, especially if the relationships include a range of embedded services and contracting mechanisms that reduce market risk.
- Facilitate cooperation that fosters MSEs to develop the volume and bargaining power needed to establish a more mutually dependent relationship (i.e., win-win) with lead firms.

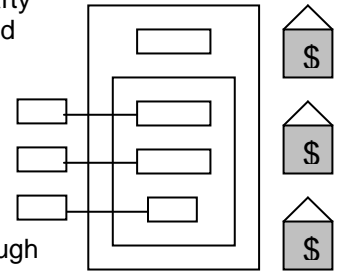
PROFIT intends to broaden the definition of the producer group to include any group of producers that are seen to be cooperating to improve their livelihood, whether external linkage dependent or independent, formally or informally organized. The key is whether they are effectively addressing joint constraints leading to improved incomes and are economically rather than socially orientated. It is the addressing of these cooperation issues within the selected value chains that the majority of PROFIT's producer group development will take place. For example, support would be given to a producer group attempting to move up a given value chain through value addition and marketing functions, to a group operating directly as a link in a directed value chain, or to a business entity acting as a third party service provider within an outgrower based value chain that requires commercially-driven producer organization.

- **Supporting Markets for Products and Services (i.e., derive demand from core value chain growth)**

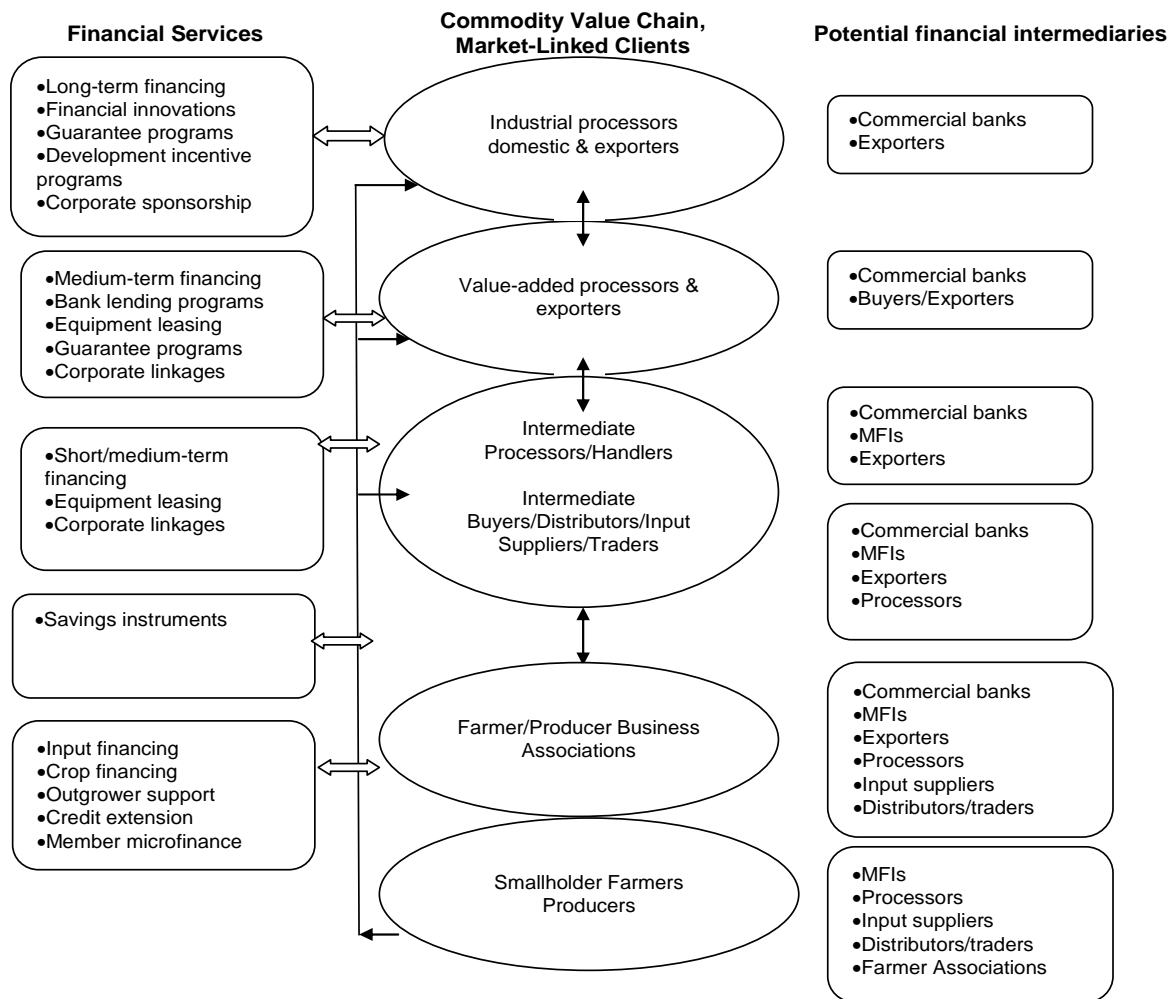
Finance -- Finance has to include both supplier/value chain finance and third party finance. Interventions to foster supplier/value chain finance needs to be provided within the context of strengthening a robust market for financial service.

PROFIT's finance activities will include:

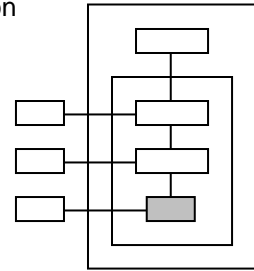
- Assess the selected industries to identify the constraints and opportunities related to the financial services;
- Facilitate viable delivery of financial services whether through the value chain (i.e., value chain financing – see graphic below) and/or through a stand alone provider such as a micro-finance institutions or banks;
- Facilitate new tailored financial products that will benefit MSEs in competitive value chains (i.e., the financial service may not be directed at the MSE) – including leasing, warehouse receipts, insurance, guarantees, etc.
- Strengthen financial services providers that are active or could be active in financing MSEs in the selected industries



Financial Services Along a Value Chain



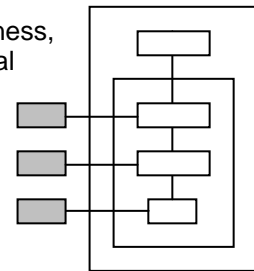
Sector Specific -- Ag-inputs and services like seeds, fertilizers, small scale irrigation equipment, vet services, tractor services, etc. need to be provided within a market context to assure not only sustainable delivery, but also to foster greater flows of information, knowledge, and skills regarding production (i.e., encourages innovation).



PROFIT's sector specific supporting market activities will include:

- Assess the selected industries to identify the constraints and opportunities related to the critical sector specific services and products;
- Facilitate viable sector specific supporting markets that deliver new technology, inputs, and/or important output services (i.e., micro-irrigation, transport, cooling, etc.);
- Facilitate innovations in payment mechanisms and/or product offers that are tailored for MSEs; and
- Facilitate increased flows of embedded services from providers of support services or products to MSEs.

Non-Sector Specific -- Generalized business services such as how to run a business, management, and marketing are less relevant to value chains that are dysfunctional or disconnected. Demand for these services typically follow the growth of demand for sector specific services. These services are more effective at the lead firm level (especially in export industries) as those firms have to have competencies to compete in more mature markets.



PROFIT's non-sector specific supporting market activities will include:

- Assess the selected industries to identify the constraints and opportunities related to the non-sector specific services and products
- Facilitate viable non-sector specific supporting markets that deliver services or products (i.e., legal, accounting, management, marketing information, ICT, etc)
- Facilitate innovation in payment mechanisms or product offers that benefit MSEs (even if not directly delivered to MSEs)

4. Ensuring the Sustainability of Competitiveness

Sustaining competitiveness requires that the market system - within which industries and firms operate - functions so as to allow for:

- the efficient flow of goods, services and money,
- effective exchange of information on market demand, prices, standards, etc.,
- constant learning, innovation and adaptation in response to market demand; and
- a fair distribution of benefit that incentivizes firms throughout the industry.

Market systems that are stagnant, in which predatory behavior prevails over transparent interactions, information is guarded rather than shared, and benefits and bargaining power are asymmetric, are generally unable to respond to the dynamic demands of markets. Rather than investing in the good of the industry, firms in these dysfunctional market systems often look out for their own interests. In the end, this behavior undermines their own and the industry's competitiveness.

To maintain competitiveness over time, all of PROFIT's interventions will be framed and monitored within the context of achieving win-win relationships, on-going learning and innovation, and increased breadth and depth of benefits to assure industries can compete in markets that are dynamic and increasingly more open to global competition.

Relationships -- The wielding of power in relationships in the value chain shapes the incentives that drive behavior and determine to a great extent who and how much certain actors benefit from their participation in an industry. Relationships can range from highly dependent where one party dominates to balanced where all parties involved have some power that they can wield. Within any given industry, relationships can cover the full range and they can shift depending on shifting market demands. Power in commercial relationships primarily comes from owning the key

determinant or determinants that drive demand. For example, un-branded food products are typically purchased based on the confidence the customers have in the retail store selling the food. In this case, the retail store often wields the power. If the product is branded and that product has strong consumer demand then the power usually resides with the manufacturer (owners of the product brand – e.g., Coca Cola). If the brand is defined by locality, skill-set, and/or social story then the power rests with the entity that owns those determinants.

The more transparent, longer-term, and focused the relationships regardless of power asymmetry the greater the clarity both parties have in terms of the cost and benefits to doing business. Highly informal, arms length relationships often encourages increased commitment failure risk of MSEs, predatory behavior of lead firms and traders, and an unwillingness for any party to risk innovation since benefits, costs, and mutual dependency are unclear.

Learning and Innovation -- The process of acquiring new knowledge or skills is not necessarily a straightforward process. Learning and innovating in a systemic sense is closely tied to the incentives that encourage/discourage delivery and absorption of new knowledge or skills as well as the types of mechanisms in place that can transfer skills and knowledge. What is straightforward is that for any industry to generate wealth over time, it needs to operate in a competitive environment that incentivizes innovation to improve basic firm operations, inter-firm cooperation, vertical linkages, and markets for services and products that support the value chain. In order for firms and industries to constantly innovate for better performance, there have to be mechanisms whether internal (staff to staff or firm to firm as part of another transaction) and/or external (firm to firm exchange specific to the transfer of skills and know-how) to the firm and industry that push new skills and know-how from where it is located to where it is needed. The industries that institutionalize learning mechanisms are the most competitive.

Benefits -- Closely related to the concepts of power relationships and learning is the idea of benefits. In the context of MSE development, benefits are much broader than just increases in income, although that is an important part of the equation. Benefits can also mean reduced market risk (more stable income) and increased value of assets. The dynamics that drive where and how benefits accrue are tied to how power is wielded (who owns the determinant of a sale) and/or whether innovation and learning are actively encouraged through appropriate mechanisms. The distribution of benefits depends not only on these factors, but also on the strength of a value chain's infrastructure (quality of enabling environment, the number and nature of vertical linkages, the effectiveness of cooperation to address joint constraints, and the depth and robustness of support markets). Artificial or highly distorted distribution structures that come about due to a poor enabling environment, predatory behavior in vertical linkages, lack of effective response to joint constraints, and/or weak or non-existent support markets can exacerbate a cycle of behavior that skews the flows of benefits and ultimately limits the competitiveness of an industry.

SECTION II -- WORKPLAN

A. PROFIT ADMINISTRATION, MANAGEMENT AND STAFF PREPARATION

Administration

- Office set-up
- Systems set-up

Activity description	Start date MM/YR	End date MM/YR	Staff *	Outputs
Final procurement activities	May 05	Sept 05	RM, VP	<ul style="list-style-type: none"> • Full vehicle and motorbike fleet and adequate equipment at Head Office and Regional Offices
Installation of computer network	Sept 05	Sept 05	VP	<ul style="list-style-type: none"> • Adequate network capacity for the PROFIT program
Staff training on administrative and financial procedures and policies	May 05	On-going	VP	<ul style="list-style-type: none"> • Skilled staff base

Management

- Organization structure
- Staff structure and management plan
- Reporting and Monitoring and Evaluation System
- Grants manual drafting and approval

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Grants manual finalization	Jul 05	Oct 05	SP, MF, RM	<ul style="list-style-type: none"> • Finalized and approved grants manual
Monitoring and evaluation system/procedures designed	Aug 05	Oct 05	RM, MF, STTA	<ul style="list-style-type: none"> • Finalized and approved performance monitoring plan in coordination with Mission and USAID impact assessment team
Progress reports preparation	Sept 05	Quarterly	RM	<ul style="list-style-type: none"> • Quarterly progress reports • Year end report
Workplan revision	Sept 05	Quarterly	RM, MF, PM	<ul style="list-style-type: none"> • Quarterly updated and revised workplan

Staff Development

- Orientation and training
- Periodic training
- Staff exchanges

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Value chain Training	Sept 05	Sept 05	STTA, MF, local staff	<ul style="list-style-type: none"> • Staff trained in specific value chain analysis techniques • Staff trained in market development methodologies
Periodic staff trainings	Oct 05	On-going	TBD, local staff	<ul style="list-style-type: none"> • Issue specific upgrading of staff skills (e.g., ICT, facilitation, value chain governance, etc.)
Regional staff exchanges	Nov 05	On-going	TBD, local staff	<ul style="list-style-type: none"> • Consistency in staff capacities in all regions • Innovation and learning in all regions

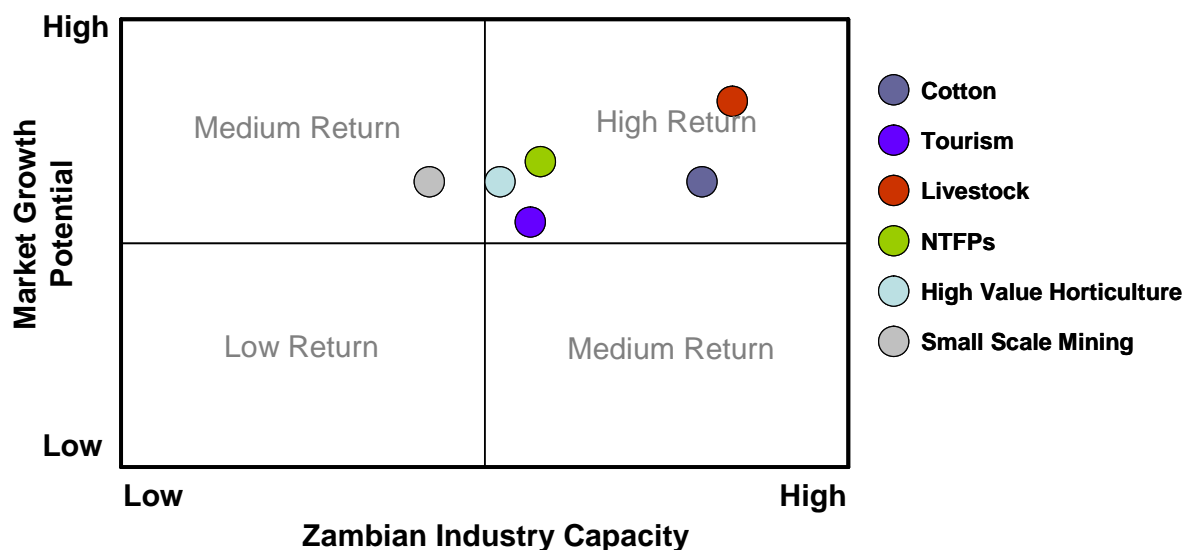
B. INITIAL INDUSTRY SELECTION ANALYSES

USAID has identified the cotton, non-timber forest products (NTFPs), tourism, small scale mining, high-value horticulture, and livestock as having potential. While there are other industries that have potential, PROFIT will initially focus on assessing and prioritizing activities in these industries. PROFIT will continually scan the market/economy to identify emerging industries or potential developments that may require PROFIT's attention, including events in industries that have not been selected as a high priority. Throughout the duration of the project, PROFIT intends to maintain flexibility both within sectors and geographically to ensure the ability to take advantage of developing opportunities,

In the first year, PROFIT will target the majority of its activities in the industries that can provide the highest return to USAID's investment. To prioritize PROFIT activities, some basic analysis was conducted to determine which industries PROFIT should target initially and which need further analysis. Provided below is the summary of the analyses for the six industries identified by USAID. There is a summary analysis for each criteria. Based on the combination of the three analyses an initial ranking was determined which provides the basis for PROFIT's proposed priorities for year 1 activities.

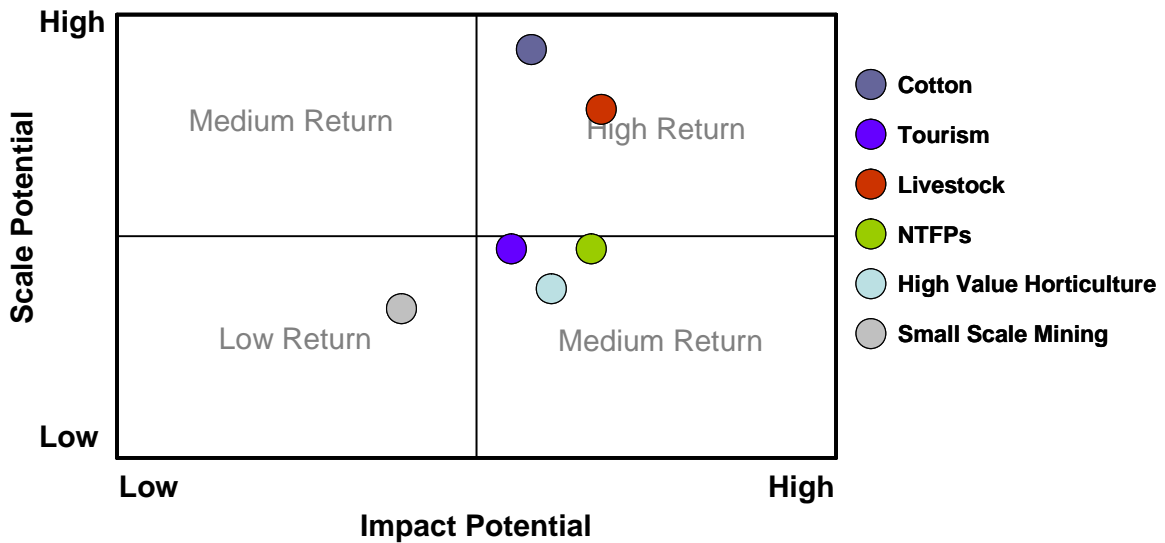
Growth Potential -- To determine growth potential two factors were chosen. The first factor was the growth potential for the industry in general based on market trends. The second factor was the capacity of the Zambian industry to organize an effective supply response to the growing demand. The analysis for each industry was determined primarily by expert interviews and was not exhaustive, but it does provide a general ability to rank each industry by its potential.

Growth Potential



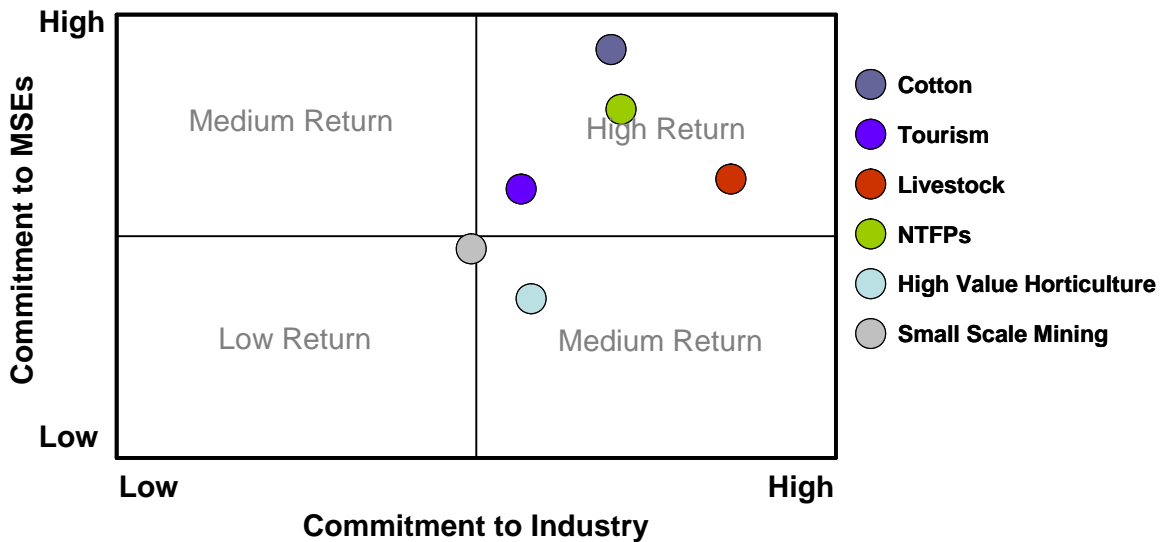
Scale and Impact Potential -- To determine the scale and impact potential PROFIT looked at the potential scale, which is defined by number of MSEs that could participate in and benefit from a growing industry. PROFIT also looked at the potential impact, which is defined by the potential income gains for MSEs.

Scale/Impact Potential



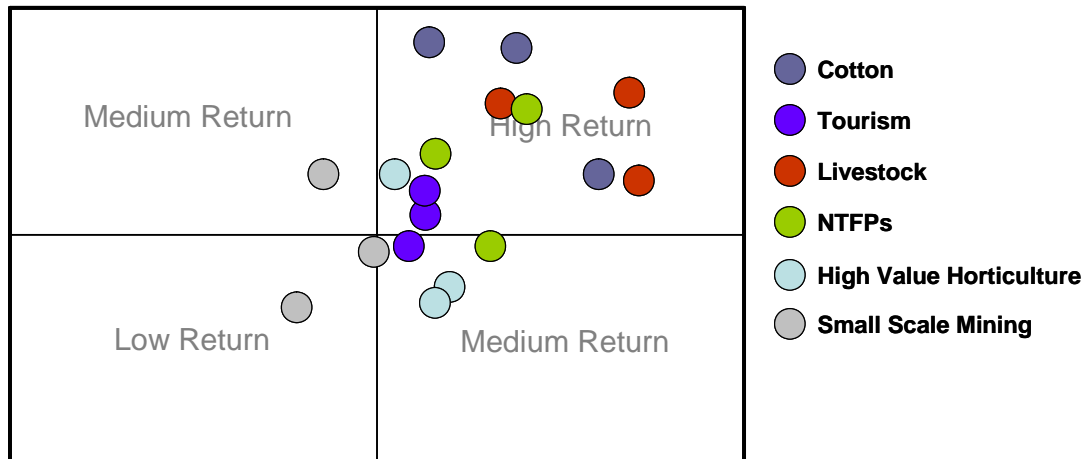
Industry Leadership – To determine industry leadership PROFIT looked at the lead firms in the industry (i.e., the larger firms that are driving or could drive greater industry growth) to assess their commitment to MSE upgrading as an important part of industry competitiveness. PROFIT also assessed the commitment of industry leaders to growing the overall Zambian industry.

Leadership



Consolidated Analysis -- Combining the three criteria, PROFIT was able to assess the comparative potential of the six industries to determine the higher priority industries that PROFIT should focus on in the year 1 of the program. PROFIT will continue to scan the progress in the other industries as well as make targeted interventions, but will focus the majority of its resources industry upgrading of the cotton and livestock industries. Substantial efforts will also go into targeted interventions in the NTFPs and tourism. In this assessment, no criteria has been taken in isolation, and 'indirect' impacts such as the multiplier effect have also been considered.

Consolidated Analysis



Criteria	Cotton	Tourism	Livestock	NTFPs	High-Value Hort.	Small-Scale Mining
Growth	High	<u>High</u>	High	<u>High</u>	High	Medium
Scale	High	<u>Medium</u>	High	<u>Medium</u>	Medium	Low
Leadership	High	<u>High</u>	High	<u>High</u>	Medium	Medium
Consolidated	High	<u>Medium-High</u>	High	<u>Medium-High</u>	Medium	Low-Medium

From the consolidated analysis it is clear that cotton and livestock provide the best potential for returns to USAID and PROFIT. Non-timber forest products (NTFPs) and tourism also provide a reasonable potential for returns. However, high value horticulture and small scale mining have less potential at this time primarily due to poor industry leadership and inability to achieve scale, respectively. While it is likely to change and PROFIT will continue to scan the market for changing opportunities, PROFIT will initially target cotton, livestock, NTFPs, and tourism. Provided below are industry specific actions plans. These plans provide the basis for launching activities once the workplan is approved, but will be subject to change depending on more detailed analysis and changing market opportunities and threats. PROFIT will also institutionalize market scanning mechanisms and a number of cross-cutting activity plans (described in the Market Scanning and Crosscutting Activities section below) to assure maximum returns from USAID and PROFIT investments.

PROFIT's industry selection is an ongoing and flexible process. The project will coordinate its market scanning activities closely with MATEP, and where that project is able to identify potentially significant market opportunities, PROFIT will be able to respond with activities based around the production base for those markets, and be ready to respond to compliment MATEP's work in these new industries. A specific example is the cassava sector that has significant commercial potential as well as well-proven food security attributes, and should MATEP be able to identify a structured marketplace for this commodity, PROFIT will respond with production-orientated activities.

Current developments in the paprika and horticulture sectors will be monitored closely and it is PROFIT's intention to develop pilot programmes in these industries as soon as the opportunity arises

C. INDUSTRY WORKPLANS

1. The Cotton Industry

Defining Competitive Advantage in the Cotton Industry

Competitive advantage in the commodity cotton global value chain is primarily defined by the ability of a national industry to efficiently bring a basic standard product to the market. Prices are set at an international level and it is the industries that can produce at a unit cost below this price that will remain competitive.

In the context of Zambia with its small-holder dominated production and poor infrastructure, high transaction costs and relatively low yields make the industry very inefficient. However, cotton remains the cash crop most attractive to the small-holder farmer, despite very low margins and declining prices. Despite global cotton prices declining by 31% and the farm gate price declining by 14% over 2004, increasing numbers of farmers are growing cotton, due to the attraction of the assured marketing channels and availability of input credit. For example, Dunavant increased its producer base by 40,000 for the 2004 planting season. Zambian cotton's competitive position is tentative given the potential for price fluctuations and very narrow margins farmer have at present prices. While the current situation is tentative, the potential productivity gains are substantial particularly in the areas of on-farm production (including basic practices and adoption of new technology), input product and services distribution/delivery, input and output finance, and output collection.

At present, Zambian cotton does not differentiate itself from other regional competitors other than having a relatively stable enabling environment and a substantial amount of quality arable land. While product differentiation is unlikely over the near to medium term, the Zambian cotton industry can differentiate itself by consistently delivering a quality product in the quantities and within the time requirements specified by buyers (i.e., supplier of choice). Current developments in the cotton industry threaten this situation through, for example, the use of polypropylene packaging by newly established firms.

Given the tentative competitive position of Zambian cotton in the near term, PROFIT will focus on the immediate issues of efficiency in order to reduce per unit costs of cotton production and processing, including:

- Transaction costs of large number of small-holders (input product and service distribution/delivery and output collection)
- Poor on farm practices and low adoption rates of new and sustainable farming methods (e.g, conservation farming)
- Low levels of farmer-to-farmer extension provision
- Support services that increase efficiency (finance and input technologies) and create another set of incentives pushing farmers to adopt better on-farm practices
- Linkages in private sector input and output markets for 'secondary' crops. The cotton farm system and the structure of the cotton sector provide the best leverage points of intervention in the production and marketing of the other crops making up the well-managed farm system such as maize, soya and sorghum

Medium to longer-term issues that PROFIT might work on with the cotton industry include:

- Quality awareness at farm level, including awareness of polypropylene contamination
- Continued innovation at production and ginning level to assure Zambian cotton becomes a preferred supplier of cotton internationally
- Tighter connections to regional fabric and garment manufacturing – to build on momentum from the AGOA treaty in close coordination with MATEP
- Product differentiation (organic, fair trade, and/or higher grade/longer thread varieties) where MSE producers own part of the demand characteristic(s)
- Biotechnology developments in collaboration with Cotton Development Trust

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Perform a quick value chain analysis to confirm assumption and findings from previous analyses	Jun 05	Aug 05	RM, PM, MF, RB, and local staff	<ul style="list-style-type: none"> Confirm key binding constraints and opportunities affecting the cotton industry and small-holder, participation, contribution, and benefits Meetings with lead firms to determine interest and willingness to participate
Coordinate with industry through ZNFU Cotton Association	Oct 05	On-going	RM, MEF	<ul style="list-style-type: none"> Recommendations and industry consensus on potential interventions, and On-going consultation with all players in the industry through permanent ex officio membership of Cotton Association Committee
Monitoring of key performance indicators at production level to determine the extent increased efficiency in chain (e.g., yields, adoption rates, third party services delivery, farmer income, etc.)	Oct 05	On-going	Profit Team	<ul style="list-style-type: none"> Agreement with Dunavant on information collection and monitoring processes On-going consultation with Dunavant to determine adjustments to approach and viability efforts to differentiate some production Use of information to foster change in broader industry
Visit APEP/Dunavant initiative in Uganda	Nov 05	Nov 05	RB	<ul style="list-style-type: none"> Develop understanding of the methodology behind this successful program for incorporation into the longer term PROFIT workplan
Monitoring of key industry level indicators to determine effects of lead firm interaction (the extent of side selling) and competitive environment (inability of lead firms to address joint constraints)	Oct 05	On-going	PROFIT Team	<ul style="list-style-type: none"> Identification of key issues and constraints and mechanisms to monitor progress Meetings with key stakeholder to discuss issues and possible solutions Fostering industry-wide dialogue (possibly through workshops or other vehicle if possible) to limit negative business strategies (i.e., piracy etc.) Possible coordination with MATEP/USAID if arbitration and/or policy implications are identified
Monitoring and linkages between key secondary industries and the cotton industries to assure mutually supportive industry practices	Oct 05	On-going	PROFIT Team	<ul style="list-style-type: none"> Identification of key issues and opportunities between cotton, soya and other legumes, sorghum and/or maize Meetings with key stakeholder to discuss issues possible collaboration – tied to vertical linkages activities

PROFIT's Commercial Upgrading Strategy for the Cotton Industry

Enabling Environment

PROFIT will coordinate with MATEP and the industry organizations in this area to assure small-holders' perspectives are considered. PROFIT will intervene when appropriate at the local enforcement level, especially when poor or unequal enforcement affects smaller holder ability to participate in and benefit from the cotton industry.

Vertical linkages

Vertical relationships in the cotton industry are already formed and improving, but the management systems and technologies can be improved to further reduce transaction costs. There are also concerns with adoption rates related to embedded services that are being delivered by the lead firms. PROFIT activities will include:

Working with lead firms (Dunavant to start) and other stakeholders such as the ZNFU Conservation Farming Unit to better understand broader social and social capital constraints to farmers adopting better on-farm practices

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Coordination with industry through ZNFU Cotton Association	Aug 05	Aug 05	RM, PM	<ul style="list-style-type: none"> Establish industry consensus on intervention priorities and lead firms with which to collaborate (assume Dunavant initially)
Perform a quick value chain analysis to confirm assumption and findings from previous analyses	Jun 05	Aug 05	RM, PM, MF, RB, and local staff	<ul style="list-style-type: none"> Confirm key binding constraints and opportunities effecting the cotton industry and small-holder, participation, contribution, and benefits Meetings with other lead firms to determine interest and willingness to participate
Work with lead firms (Dunavant to start) and CFU to adjust and pilot new incentive schemes to foster greater adoption rates among farmers	Oct 05	On-going	RM, MF, RB, and local staff	<ul style="list-style-type: none"> Agreement with Dunavant to roll out capacity building through Conservation Farming. Choma and Monze Districts have been identified already for a pilot scheme for the 2005-2006 agricultural season. Pilot preferred supplier and bonus programs to further incentivize the emerging agent structure effectiveness Establish monitoring process to determine cost effectiveness of different incentive schemes Progress reports with recommendations to either scale up or limit pilot incentive schemes Meetings with other lead firms (primarily Clark and Continental) to gauge interest in testing pilot programs in their out-grower schemes

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Work with lead firms (Dunavant to start) to review and assess out-grower management schemes to further reduce transaction costs and appropriately reward performance	Oct 05	On-going	RM, MF, RB	<ul style="list-style-type: none"> • Agreement with Dunavant on areas of activities – starting with analysis looking for embedded services that can be transitioned to third party services (i.e., spraying, tractor services, animal traction services, etc.) – tied to support services activities • Progress reports with recommendations to either adopt or not adopt new management practices
Work with lead firms (Dunavant to start) and CFU to foster connections to key secondary crops like soya, groundnuts, sorghum, etc. to assure effective soil management	Oct 05	On-going	RM, MF, RB	<ul style="list-style-type: none"> • Agreement with Dunavant on areas of cooperation cost sharing agent network for delivery of crop-specific inputs, information, and know-how • Identification of vertical linkages (e.g., commercial beer production by Zambian Breweries for sorghum and animal feed for soya) • Progress reports with recommendations to either adopt or not adopt new management practices
Work with CFU and Cotton Development Trust in researching the commercial application of new technologies, in conjunction will private sector input suppliers	Dec 05	Ongoing	RM, MF, PM	<ul style="list-style-type: none"> • Developing a learning mechanism for constant technological improvement within the cotton industry • Researching methods of applying these technologies to the farm system and assessing barriers to adoption
Coordination with MATEP and ZNFU on local enforcement issues and small-holder empowerment efforts	Sept 05	On-going	RM, MF, RB	<ul style="list-style-type: none"> • On-going exchange on enabling environment issues • Participation in meetings with local, regional, and international officials when appropriate

Horizontal Cooperation

Cooperation is happening, but the form of cooperation could be improved, including leveraging social capital to foster a higher adoption rates and further reductions in transaction costs.

PROFIT activities will include:

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Work directly with small-holders to build their through a one-time upgrading on conservation farming	Oct 05	On-going	PROFIT team	<ul style="list-style-type: none"> • Agreement with Dunavant to cost share initiative with CFU to deliver capacity building services to assure one-time large scale upgrading of farmers on basic farming practices • Specific exit strategy with Dunavant to assure continued and commercially grounded follow-up and on-going flow of new skills, know-how, and information on production

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Work with small-holder groups to foster increased adoption rates of better on-farm practices	Oct 05	On-going	PROFIT team	<ul style="list-style-type: none"> Pilot modified lead farmer and demo-plot initiatives that establish foundation for third party actions Coordinated approach with EU/CFU animal traction effort to assure limited distortion and improved private sector incentives to adopt better practices
Work with Dunavant and small-holder groups to improve farmer-based extension and information services	Oct 05	On-going	PROFIT team	<ul style="list-style-type: none"> Pilot incentive design for distributors and lead farmers to more efficiently disseminate extension information
Work with small-holder groups to foster more effective cooperation on joint constraints	Oct 05	On-going	PROFIT team	<ul style="list-style-type: none"> Pilot use of different organizing mechanisms that include internal and external management techniques Improved group dynamics and commercial focus
Work with small-holder groups to better understand their responsibilities (i.e., quality issues, implications from side selling, benefits of reduced market risks, etc.)	Oct 05	On-going	PROFIT team	<ul style="list-style-type: none"> Analysis of underlying causes of side selling including culpability of lead firms Information events public education efforts (meetings, radio, brochures, etc.) that delivery a consistent message of the risks of side selling Specific links to incentive schemes Monitoring of side selling
Work with small-holder groups to foster functional upgrading in coordination with their main buyer or lead firm (collection, transport etc)	Oct 05	On-going	PROFIT team	<ul style="list-style-type: none"> Specific market opportunities identified to functionally upgrade well performing small-holder farmer groups MOU with targeted farmer groups that defines role and responsibilities for both PROFIT and farmer group Farmer groups moving into broker, processing functions in the value chain

Support Markets

Finance – finance is mostly delivered internally, but the costs are not clear and there is potential for third party services that could reduce the delivery cost to large numbers of farmers. It is also unclear whether other financial needs may be affecting adoption rates and willingness to adhere to formal and informal agreements to deliver cotton at a pre-arranged price. PROFIT activities will include:

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Work with Dunavant and other lead firms to assess and facilitate pilot third party financial services	Nov 05	On-going	RM, MF	<ul style="list-style-type: none"> Assess current value chain financial services including management and cost effectiveness of delivery and management processes Identify key areas of potential improvements Agreement with Dunavant to pilot third party or new internal processes to reduce costs, improve service delivery, and monitor/reduce risks

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Identify links between value chain credit platform and other inputs (e.g., irrigation equipment, motorized traction, etc.)	Nov 05	On-going	RM, MF, PM	<ul style="list-style-type: none"> Assess commercial viability of animal traction scheme run by EU, CFU, and Dunavant Agreement with EU, CFU and Dunavant to pilot other product lines such as irrigation facilities through the animal traction scheme if commercially viable Exit strategy for the PROFIT, EU, and CFU to assure sustainability financing for animal traction and other product lines
Identify and work with local MFIs and banks to determine viability of financial services being made available in the same locations as out-grower schemes	Dec 05	On-going	RM, MF	<ul style="list-style-type: none"> Assessment of financial services that have potential to link to cotton production (credit, saving, warehouse receipts, insurance, leasing, etc.) Prioritized list of third party financial services that PROFIT will target Agreement with Dunavant (and other firms as appropriate) and finance firms to detail intervention and exit of PROFIT
Work with lead firms and financial services firms to assess financing costs of the lending operations to see if there are ways to reduce the costs of funds through risk sharing mechanisms	Dec 05	On-going	RM, MF	<ul style="list-style-type: none"> Agreement with Dunavant to assess commercial financing options Analysis of commercial lending constraints and opportunities Analysis of equity investment constraints and opportunities

Sector specific – Most sector specific inputs are delivered through or in close association with the lead firms. This is very useful as it provides an important rationale for small-holder upgrading, but may not be very efficient or provide the push-pull incentives needed to foster better on-farm practices. Further, technology such as low-cost drip and improved tillage equipment must be commercially viable to provide on-going access to the technology and the incentives to push better on-farm practices. PROFIT activities will include:

- Working with third party service providers where possible to facilitate commercially viable markets for key inputs and services like micro-irrigation equipment, seeds, fertilizer, spraying services, land preparation services, and collection services. Key input supply companies such as Seedco, Syngenta, Greenbelt Fertilizers and Cropserve have expressed interest in collaborating on this initiative, and talks have already been held with ZNFU with the view to incorporating the Agribusiness Chamber at the national level and the District Farmers Associations and Contact Farmer networks at the local level into the program.

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Work with lead firms to assess where third party service providers can increase efficiency throughout the chain (i.e., transport services) and/or increase productivity at the production level (agrovets, input dealers, land preparation services, etc.)	Dec 05	On-going	PROFIT team, PM	<ul style="list-style-type: none"> Increased number of third party service providers delivering services directly to cotton producers and by default the more general small-holder agricultural sector. Increased income for cotton producers Increased innovation at the small-holder production level

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Work with third party service providers where possible to facilitate commercially viable markets for key inputs and services like micro-irrigation equipment, seeds, fertilizer, spraying services, land preparation services, and collection services.	Dec 05	On-going	PROFIT team, PM	<ul style="list-style-type: none"> Increased revenues to third party service providers Increased income for cotton producers Increased innovation at the small-holder production level Increased benefit to the general small-holder agricultural sector

Non-sector specific – Information technology could provide substantial benefits to farmers and rural businesses – by using SMS to delivery a range of market and production information (i.e., pricing information, timing on use of inputs, access to specialists, etc.). Market information and also market access for the legume and cereal crops in the cotton farm system also requires attention to ensure the economic as well as environmental sustainability of the rotation system.

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Work with lead firms and SMS service providers to determine and possible pilot new information services	Jan 06	On-going	PROFIT team	<ul style="list-style-type: none"> Agreement with ILO, SNV and SMS service provider on pilot program development. Telecel has already expressed interest in collaborating on this initiative. Design of SMS services to cotton producers
Work with lead firms and radio broadcasters to determine commercial viability and usefulness of radio programs that provide market information and technical knowledge on a regular basis to small-holders	Jan 06	On-going	PROFIT team	<ul style="list-style-type: none"> Agreement with ILO program on radio programming Linkage to viable content providers in cotton
Work with lead output marketing companies and small-holder groups to ensure market access for secondary commercial crops within the farm system	Jan 06	On-going	PROFIT team	<ul style="list-style-type: none"> Coordination with ZNFU Agribusiness Chamber to establish constraints to greater interface between commercial input and output companies and small-holder sector Support to Afgri, National Milling and other large buyers committed to providing valuable additional services such as input exchange and transport Support to contract buyers such as Zambian Breweries through ZAMAC for sorghum marketing Continued promotion of finance and marketing mechanisms such as the warehouse receipt scheme

2. The Livestock Industry

Defining Competitive Advantage in the Livestock Industry

The livestock industry competes based on a combination of efficiency and differentiation. Delivering consistently high quality products that range from low margin high volume raw meat and dairy products to high-value processed products is critical to the industry's overall competitive position. The industry must form efficient channels for high volume products that maintain a basic level of quality, but it is also important for the industry to develop specialized channels for differentiated products like certain cheeses, processed meats, and high-value by-products (leather). In this context, it is critical for firms and the industry to achieve effective and efficient linkages from inputs to production, transport, processing and retail distribution channels for the full range of products that are emerging. At present, the livestock industry is relatively disconnected with weak and ineffective linkages that are plaguing the industry's ability to respond to critical threats such as low productivity, drought, disease outbreak and unfair competition from imports. Further, the disconnectedness in the industry has limited information flows and fostered a general lack of transparency that distorts commercial incentives, limits the adoption of better on-farm practices, and minimizes the demand for critical support products (e.g., veterinary services, financial products and services, and feed services and products).

While the potential is substantial the breadth and depth of the issues in all the channels are substantial and there are limitations on where and how PROFIT can intervene. As a result, PROFIT will target the highest returning interventions. For example, where there is already substantial donor involvement as there is in dairy, PROFIT will play a minimal role. While PROFIT will closely coordinate with these efforts as there will be substantial overlap (especially in regard to support services and some output relationships), its main focus will be on beef and poultry, and possibly some by-products within the livestock industry such as the leather industry where the major constraint to expansion is access to sufficient quantity and quality of raw hide.

Looking just at these channels within the livestock industry there remains substantial issues related to basic industry efficiency as well as critical quality issues that are limiting any ability to differentiate Zambian products. Specifically, low productivity, poor animal health, and high transaction costs are key constraints to moving the industry forward. To address these constraints and thus increase efficiency and improve quality, PROFIT will target the ineffectiveness of and inefficiency in the input and output relationships. PROFIT will utilize direct project interventions (via staff time) as well as targeted grants to facilitate more robust, commercially grounded, and responsive relationships on both the input and output sides of production.

To achieve these objectives PROFIT will first need to gain a more detailed picture of the full range of existing and potential functional relationships along the value chain for beef and poultry. It is only by having this understanding that PROFIT can target the key binding constraints or catalytic opportunities. Specifically, PROFIT will:

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Draft SOW for value chain analysis	Aug 05	Aug 05	PROFIT team	<ul style="list-style-type: none"> Finalized and approved SOW
Selection of analysis team	Aug 05	Aug 05	PROFIT team	<ul style="list-style-type: none"> Team and schedule finalized and locked-in
Coordinate with industry through ZNFU Beef Association	Sept 05	On-going	RM, MEF	<ul style="list-style-type: none"> Recommendations and industry consensus on potential interventions, and On-going consultation with all players in the industry through permanent ex officio membership of Beef Association Committee

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Perform a value chain analysis	Sept 05	Sept 05	PROFIT team	<ul style="list-style-type: none"> Summary findings report Internal PROFIT recommendations report
Stakeholders presentation of summary findings	Oct 05	Oct 05	PROFIT team	<ul style="list-style-type: none"> Presentation of summary report to key stakeholders Consensus of key constraints and opportunities on which PROFIT will focus
Internal upgrading strategy refinement meeting	Oct 05	Oct 05	PROFIT team	<ul style="list-style-type: none"> Finalized activity plan for livestock industry

Commercial Upgrading Strategy for the Livestock Industry

Enabling Environment

PROFIT will not focus on enabling environment issues in the livestock industry in terms of direct lobbying or advocacy assistance to specific organizations. PROFIT will identify and communicate enabling environment constraints and opportunities to MATEP, ZNFU and other appropriate programs and organizations.

Vertical linkages

PROFIT will focus on fostering more robust and transparent linkages by building on already established platforms, facilitating new mechanisms, and fostering more direct relationship for higher value product channels. While efforts are still being made to find similar interfaces between the commercial and small-holder sectors in the poultry subsectors, the regional slaughter houses that have been established by Zambeef and other lead firms provide an obvious opportunity to strengthen the relationship between a key lead firm and a larger number of small-holders in the beef sector. Such a platform can also provide an efficient mechanism for the delivery of a range of embedded and third party services that are unlikely to be delivered on a one-to-one basis to small-holders. The development of new market mechanisms such as localized auctions can perform a similar function in terms of acting as an organizing node for regional small-holders. The local ZNFU Farmers Association structures provide an obvious focal point for such interventions. For high-value products, high potential small-holder may provide a processor an opportunity to upgrade his supply to capture higher margins from niche product lines. Specific activities include:

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Coordination with industry through ZNFU Beef Association	Sept 05	Sept 05	RM, MF	<ul style="list-style-type: none"> Establish industry consensus on intervention priorities and lead firms with which to collaborate (assume Zambeef initially)
Perform internal analysis of small-holder communities where regional slaughterhouse are located (starting with Zambeef slaughterhouses)	Oct 05	Oct 05	RM, MF, District Managers	<ul style="list-style-type: none"> Prioritized list of high potential communities/small-holders Prioritized list of linkage constraints from the small-holder perspective including capacity building requirements
Perform internal analysis of local market structure including identification of current or potential auction sites	Oct 05	Nov 05	RM, MF, District Managers	<ul style="list-style-type: none"> Prioritized list of auction sites through coordination with industry and relevant ZNFU District Farmers Associations List of potential auction models (e.g., embedded or third party)

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Perform internal analysis of industry leadership and high-value market opportunities	Oct 05	Nov 05	RM, MF	<ul style="list-style-type: none"> • Prioritized list of high-value product lines in which able small-holders could participate – foster directed relationships between lead firm and small-holders • Overview of capacity building requirements
Review of value chain and internal analyses in order to finalize vertical linkages activities	Sept 05	Oct 05	RM, MF, and STTA	<ul style="list-style-type: none"> • Finalized vertical linkages activities – feed into livestock action plan
Assess potential of lead firms to participate in program activities in collaboration with ZNFU Beef Association	Jan 06	Feb 06	RM, MF, District Managers, Local Staff	<ul style="list-style-type: none"> • Prioritized list of lead firms with industry consensus • Finalized agreements with 1 or 2 lead firms • Launch of activities to foster embedded services and improve adoption rates
Initiate auction pilot program – tied to support services market to develop third party auction services	Nov 05	On-going	MF, District Managers	<ul style="list-style-type: none"> • Finalized site selection and plan for auction roll-out • Third party service provider established – activities in support markets section
Initiate efforts to establish directed relationship in high-value product lines	May 06	On-going	RM, MF	<ul style="list-style-type: none"> • Finalized product line to target • Finalized lead firms and communities to target • Finalized model – e.g., outgrower, joint venture, etc.

Horizontal Cooperation

PROFIT's targeting of horizontal cooperation activities in livestock will be based on the value chain assessment, internal analyses, and discussions with stakeholders. Priority will be given to activities that foster groups of producers to access important input services/products, functionally upgrade, and/or link up to lead firms where they can obtain important embedded services. The focus will be on encouraging cooperation to target joint commercial constraints such as costs of inputs, high market risks, and high transaction costs of linkages. PROFIT's activities in horizontal cooperation will include:

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Perform internal analysis of small-holder groups	Sept 05	Nov 05	RM, MF, District Managers	<ul style="list-style-type: none"> • Prioritized list of high-potential small-holder groups (formal and informal) • Summary of the key constraints/weaknesses of small-holder groups
Perform internal analysis of potential for functional upgrading	Oct 05	Nov 05	RM, MF	<ul style="list-style-type: none"> • Summary of high potential channels/products • Prioritized list of small-holder groups that have the potential to functionally upgrade • Summary of the capacity weaknesses that would need to be addressed
Review of value chain and internal analyses	Sept 05	Oct 05	RM, MF	<ul style="list-style-type: none"> • Finalized action plan for horizontal cooperation

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Establish agreements with targeted groups	Oct 05	Feb 06	District Managers	<ul style="list-style-type: none"> Finalized agreements Finalized action plans for 2 to 5 groups – use of self selection methods to assure serious group participation
Work with small-holder groups and lead firms to increase benefits at the production level through higher yields and incentive schemes to reward improved on-farm practices and commitment to agreements (i.e., preferred supplier program)	Oct 05	On-going	Local staff, RB, RM, MEF	<ul style="list-style-type: none"> Agreements from livestock producer groups on new incentive schemes Increased transparency through written agreements that detail incentives and repercussions
Work with small-holder groups to foster more effective cooperation on joint constraints	Oct 05	On-going	Local staff, RB, MF	<ul style="list-style-type: none"> Pilot use of different organizing mechanisms that include internal and external management techniques Improved group dynamics and commercial focus
Monitoring of group progress	Nov 05	On-going	District Managers, Local Staff	<ul style="list-style-type: none"> Periodic progress meetings leading to maintaining, stopping, or adjusting agreement Improved animal health and value More stable and growing incomes

Support Markets

Finance – Financial services will be an important aspect of livestock activities. The amount of risk tied to especially the larger animals is substantial. The risk can be mitigated using a range of insurance products including adapted insurance mechanisms to cover the costs of veterinary services, as well as financial protection against death of the animal at various stages leading to sale. PROFIT will also look into financing of livestock through embedded value chain finance and third party commercial lending services (MFIs, banks, credit unions, etc.)

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Perform internal analysis of relevant financial services	Nov 05	Dec 05	MF, District Managers	<ul style="list-style-type: none"> Prioritized list of financial services to be fostered by PROFIT – possibly tied to a grant
Assess targeted small-holder groups needs for financial services including potential for adapted insurance mechanisms to reduce per family costs for preventative animal health care	Oct 05	Dec 05	MF, CN, District Managers	<ul style="list-style-type: none"> Prioritized list of constraints to fostering community payment mechanism for veterinary services
Assess financial services firms' ability to further expand service delivery of lending, insurance and savings products for the livestock industry	Nov 05	Dec 05	MF, District Managers	<ul style="list-style-type: none"> Prioritized list of constraints to expanding availability of insurance, lending, and savings products in the livestock industry
Review analyses and finalize action plan for livestock finance	Nov 05	Dec 05	MF, District Managers	<ul style="list-style-type: none"> Finalized action plan for livestock

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Design grant program for financial products for livestock production targeting innovative financial products for livestock	Nov 05	Dec 05	MF, SP	<ul style="list-style-type: none"> Finalized grant program for livestock Launch grant program Selection of awardees Increased access to financial services that reduce small-holder risks and cash flow constraints
Initiate pilots for direct intervention for financial services tied to vet services for livestock producers	Dec 05	On-going	MF, District Mangers	<ul style="list-style-type: none"> Finalized pilot designs Launch finance part of vet services pilot Decreased per unit costs of vet services Improved animal health and value

Sector specific – Sector specific activities will focus on key input and possible output services. One of the main input services will be fostering private sector veterinary services. Through vet capacity building, innovative payment mechanism, coordination with local ZNFU structures and possible cost sharing with lead firms, On the supply side PROFIT will be working with private vets where available to foster a network of vets through which they can be assisted in upgrading their business and service delivery capacities (including developing a service that is a community-wide preventative care plan). On the demand side, PROFIT will work to facilitate better understanding of the value of preventative vet care, as well as payment mechanisms that will substantially reduce the per unit cost of preventative health care for animals. Similar to an informal insurance structure, PROFIT will pilot a mechanism where farmers will pay a monthly amount into a community based preventative health care plan for their animals. The monthly amount will form the basis of payment for the new community-wide service being developed with vets. The vets will design a community-wide healthcare plan for all the animals. The plan and monthly payment schedule will form the basis of a longer-term contract between the vet and the community. The objective is the reduce the per unit cost of vet care, increase the income potential and stability of vets, and directly deal with the high transaction costs of one-on-one vet care. This intervention will be closely tied to the facilitation of auctions and backward linkage to assure clear market signals and incentives that support improved animal health. The pilot will also consist of links to formal insurance to further limit risks to farmers.

Where private vets are not active, PROFIT plans to assist government vets on the service delivery capacities and foster similar payment mechanisms at the community level. Where possible, it would be advantageous for the same business entity to also provide crop-sector services to spread the risk and broaden the potential market.

PROFIT will actively facilitate commercially viable vet services that incentivize better on-farm practices. Based on analysis and potential for vertical linkages, PROFIT may facilitate third party auction services as a means to make more transparent and effective the sale of livestock at local levels. Feed services will also be critical and PROFIT will link farmers tied to cotton production to feed services providers to foster a more integrated farming system. Specifically, PROFIT will:

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Assess viability of private veterinary services tied to shared payment mechanism/insurance system	Dec 05	On-going	MF, CN	<ul style="list-style-type: none"> Prioritized list of locations to pilot private veterinary services Finalized design of veterinary services pilot
Assess auction service viability in regions where direct vertical linkages is not favourable for small-holders	Dec 05	Jan 06	RM, MF, District Mangers	<ul style="list-style-type: none"> Prioritized list of locations to pilot third party auction services Finalized design of auction services pilot

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Launch veterinary services pilot	Dec 05	On-going	MF, CN, District Managers	<ul style="list-style-type: none"> • Collaboration with Land O Lakes to ensure synergies with their initiatives in the dairy sector • Preventative care plans for community animals finalized • Payment system in place and functioning • Service delivery • Vet network development and training in business basics • Increased animal health and value • Reduction in loss due to preventable disease • Improved emergency response to disease outbreak
Launch auction services pilot	Jan 06	On-going	MF, RM	<ul style="list-style-type: none"> • Development of auction services skills and provider network • Increased transparency at sale • Improved understanding of quality/price ratio • Higher prices for quality animals • Greater access to transparent sales mechanism for poorer small-holders • Increased awareness of better on-farm practices
Assess linkages to feed production tied to cotton growing system	Jan 06	Feb 06	RM, MF,PM District Manager	<ul style="list-style-type: none"> • Prioritized list of firms that can link feed production to small-holder livestock producers • Finalized intervention design to foster linkages

Non-sector specific – PROFIT will foster livestock specific uses for information services like SMS and mobile phone use. Additional services will also be fostered as they emerge as important through the value chain or other internal analyses. Specifically, PROFIT will:

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Foster private veterinary mobile phone usage – tied to emergency response mechanism	Dec 05	On-going	MF, District Managers	<ul style="list-style-type: none"> • Informal network of private vets that communicate via mobile phones on regional disease risks • Stronger links to public services for disease control
Work with lead firms and SMS service providers to determine and possibly pilot new information services	Dec 05	On-going	RM, MF	<ul style="list-style-type: none"> • Finalized design to pilot SMS messages on livestock production – tied to auction and vet services
Work with lead firms, ZNFU and radio broadcasters to determine commercial viability and usefulness of radio programs that provide market and technical information on a regular basis to small-holders	Jan 06	On-going	RM, MF, District Managers	<ul style="list-style-type: none"> • Agreement with ILO program on radio programming • Linkage to viable content providers in livestock

3. The Non-Timber Forest Product (NTFP) Industry

Defining Competitive Advantage in the NTFPs Industry

Non-timber forest products are primarily niche products that require some degree of differentiation if they are to gain a competitive advantage in the market place over time. With that said, if NTFPs cannot obtain some basic level of efficiency in producing and bringing the product to market they will not be able to cover the inherent transaction costs of production in often rural forested locations. In Zambia, there is limited current potential for NTFPs in general, but there is potential for a few specific products that are emerging into organized value chains. Honey is an example of a NTFP that has demonstrated potential for creating wealth in rural areas and establishing solid market positions through the solid leadership of a few lead firms.

For the honey industry to continue to grow and meet its commercial potential the industry will have to overcome two current constraints. The first constraint is that the value chain has not been able to meet even basic efficiency requirements, which can be defined by limited production yields (e.g., beekeepers are producing at about 25% of where they should be). The second is that further differentiation is required to assure sustained growth over time, which would require a combination of increased quality, niche market certifications (e.g., organic, fair trade, etc.), and/or new market niches in cosmetics and health care. Current production has to compete with similar quality honey that is being produced on a much larger scale in a range of countries, particularly China.

Of these threats the inability to even meet basic efficiency is the most critical. If they cannot achieve a basic level of production, differentiation will not make sense as even highly differentiated honey products require some cost competitiveness. As a result, PROFIT will first focus on productivity using a similar embedded services delivery approach used in its cotton upgrading strategy where the majority of capacity building services will flow from the lead firm. Over time PROFIT will work with lead firms to evolve these services into localized third party services that will form a network of commercial relationships/incentives to push and pull the rural beekeepers into continual innovation at the production level allowing them to contribute and benefit from a more competitive honey value chain.

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Perform and internal assessment of the honey sector focusing on Forest Fruits honey channel	Oct 05	Nov 05	RM, MF	<ul style="list-style-type: none"> Internal prioritized list of constraints and opportunities in the Forest Fruits honey channel
Assess other lead firm channels to determine potential for participation in program in collaboration with Honey Council	Nov 05	On-going	RM, MF	<ul style="list-style-type: none"> Prioritized list of other honey market channels and lead firms

Commercial Upgrading Strategy for the NTFPs Industry

Enabling Environment

PROFIT will not focus on enabling environment issues in the NTFP industry in terms of direct lobbying or advocacy assistance to specific organizations. PROFIT will identify and communicate enabling environment constraints and opportunities to MATEP and other appropriate programs and organizations.

Vertical linkages

PROFIT will work with already established vertical linkages to assure effective incentives are in place to increase the low level of adoption of better production techniques. Initially, PROFIT will build on the collaboration between CLUSA and Forest Fruits of Mwinilunga to establish a similar internal distributor model being formed in the cotton value chain using the loose agent structure already present. Through this distribution network that will be formed internal to the Forest Fruit channel, a range of critical embedded services will flow, incentivizing improved productivity at the rural beekeeper level. Specifically, PROFIT will:

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Assess current incentives and flows of embedded services	Oct 05	Nov 05	RM, MF	<ul style="list-style-type: none"> • Prioritized list of constraints and opportunities to improving productivity levels
Design distribution system with Forest Fruits – including a one-time capacity building activity	Dec 05	Jan 06	RM, MF, District Managers	<ul style="list-style-type: none"> • Finalized agreement with Forest Fruits on PROFIT participation • Finalized incentive scheme for distributors (that includes embedded service delivery) • Finalized action plan for one-time capacity building effort
Launch one time capacity building effort for Forest Fruits producers	Oct 05	On-going	District Managers, Local Staff	<ul style="list-style-type: none"> • Increased production from beekeepers • Increased adoption of improved top-bar hive technologies
Launch distributor model for Forest Fruits	Oct 05	On-going	District Managers, Local Staff	<ul style="list-style-type: none"> • Training for distributors • Increased adoption rates of beekeepers
Identify other lead firms and negotiate their participation	Nov 05	On-going	RM, PM	<ul style="list-style-type: none"> • Finalized agreement with other lead firms
Launch distributor model for other lead firms	Mar 06	On-going	RM, MF	<ul style="list-style-type: none"> • Training for distributors • Increased adoption rates of beekeepers
Assess, in coordination with MATEP and Forest Fruits, opportunities differentiating product line	Mar 06	On-going	RM, MF, District Managers	<ul style="list-style-type: none"> • Market assessment and return on investment analysis for organic and fair trade certifications • Encourage bioflavinoid testing for Zambian honey to increase access to higher value pharmaceutical markets • Assessment of the propolis market through market research and bioflavinoid testing to improve market accessibility for this high value product • Action plan to assure rural producers can meet quality and certification standards • Exit strategy to assure quality and certification requirements can be sustained through embedded service delivery and distributors
Launch differentiation action plan (certification process, embedded service model, third party input network development, etc.)	Apr 06	On-going	RM, MF, District Manager	<ul style="list-style-type: none"> • New market channel for selected beekeeper groups • Increased income for beekeeper groups that access niche markets
Assess in coordination with MATEP and Forest Fruits opportunities for upgrading processing equipment for wild honey at farm and firm levels	Oct 05	On-going	RM, PM, MF	<ul style="list-style-type: none"> • Improved efficiencies in honey processing technologies allowing better utilization of lower grade comb

Horizontal Cooperation

PROFIT will work with rural beekeepers to assure they are adopting better bee keeping methods and that they are benefiting from their improved production. PROFIT will also work with rural beekeepers and lead firms to determine functional upgrading potential for high-performing producers. Specifically PROFIT will:

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Assess beekeeper communities to identify lead communities for pilot activities	Oct 05	Nov 05	MF, District Managers	<ul style="list-style-type: none"> • Prioritized list of communities that are more likely to adopt better practices
Work with small-holder groups and lead firms to increase benefits at the production level through increased production and incentive schemes to reward improved bee keeping practices and commitment to agreements (i.e., preferred supplier program)	Nov 05	On-going	Local staff, RB, RM, MEF	<ul style="list-style-type: none"> • Agreements from beekeeper groups on new incentive schemes • Increased transparency through written agreements that detail incentives and repercussions
Work with beekeeper groups to foster more effective cooperation on joint constraints	Nov 05	On-going	RB, MF, Local staff,	<ul style="list-style-type: none"> • Pilot use of different organizing mechanisms that include internal and external management techniques • Improved group dynamics and commercial focus
Assess functional upgrading potential	Jan 06	On-going	RB, MF,	<ul style="list-style-type: none"> • Prioritized list of functional upgrading opportunities with target communities • Agreement with lead firm functional upgrading action plan
Finalize action plan and launch pilot functional upgrading efforts	Feb 06	On-going	RB, MF, District Managers	<ul style="list-style-type: none"> • Finalized action plan • Capacity building delivered to targeted beekeepers • Exit strategy to assure embedded or third party service availability of on-going capacity building and market access
Monitor functional upgrading activities	Mar 06	On-going	District Managers, Local Staff	<ul style="list-style-type: none"> • Periodic review leading to adjustment, stopping, or scaling up activities

Support Markets

The scale of NTFPs does not provide for substantial support market services, but PROFIT will work with lead firms and producer groups to determine where opportunities are for increased third party delivery of services and products.

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Assess the potential for increasing the efficiency of embedded financial services – including potential for third party back-room services	Nov 05	On-going	RM, MF	<ul style="list-style-type: none"> • Cost benefit analysis of improved embedded financial service delivery • Cost benefit of third party service providers (i.e., retail and/or admin) • Design of transitional plan for third party delivery of some financial services

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Work with lead firms to assess where third party service providers can increase efficiency throughout the chain (i.e., transport services) and/or increase productivity at the production level (i.e., input dealers, interim processors, etc.)	Nov 05	On-going	RM, PM	<ul style="list-style-type: none"> Increased number of third party service providers delivering services directly to honey producers
Work with third party service providers where possible to facilitate commercially viable markets for key inputs and services like top bar beehives and collection services.	Nov 05	On-going	RM, PM, District Managers	<ul style="list-style-type: none"> Increased revenues to third party service providers Increased innovation at the small-holder production level
Work with lead firms and radio broadcasters to determine commercial viability and usefulness of radio programs that provide market information and technical knowledge on a regular basis to beekeepers	Jan 06	On-going	RM, MF	<ul style="list-style-type: none"> Agreement with ILO program on radio programming Linkage to viable content providers in honey production

4. The Tourism Industry

Defining Competitive advantage in the tourism industry

The tourism industry in Zambia is based primarily on natural and cultural assets. The assets are defined within the context of wildlife, natural sites (falls, landscapes, etc.), local festivals/events, and historical sites. With few exceptions (i.e., Victoria Falls) these assets cannot handle mass tourism without compromising the asset. In addition, the current structure of tourism in Zambia is based on relatively closed channels/products defined by relatively small tour and lodge operators, or ownership/control of an asset (for example in the consumptive tourism industry for safari hunting). There is some networking in terms of tour operators selling multiple channels, but indications are that this is minimal. As a result, the tourism industry in Zambia, particularly as it relates to poor community involvement, is best suited to taking an upgrading strategy based on differentiation. Certainly some efficiencies can and must be achieved to improve the competitive position of Zambian tourism, but the key will be if Zambia can differentiate itself compared to its principle competitors.

Differentiation can be defined by the mix of tourist products available, the quality of the assets, the effective management of the assets, and the overall quality of service delivery to the tourists. PROFIT will focus its efforts in tourism on targeting high potential models for integrating poor communities into the tourism industry on a commercial basis, broadening and deepening the benefits from tourism activities accruing to these communities, and replicating appropriate models. PROFIT will consider all levels of community involvement, from direct service (e.g. camp site management) and direct support service (e.g. cultural villages, dance troupes) to back-of-house services (e.g. fresh vegetable provision to a cluster of lodges)

To achieve these objectives PROFIT will first perform an industry analysis focusing on community based tourist (CBT) activities already operating in the country. As the tourism industry is highly disconnected there is no inventory or adequate understanding of the full range of activities currently taking place in Zambia. While there is some understanding of the type and location of most of the tourist assets available, there is limited knowledge about the extent to which local communities are benefiting, the constraints to increased contribution and benefits, the commercial sustainability of the programs currently operating, and potential opportunities based on scaling up already proven models.

PROFIT will target its assistance to the tourism industry through a tailored grant program. The program will target constraints and opportunities identified during the initial assessment and in discussions with MATEP, Zambian National Tourism Board, Zambian Wildlife Agency, private tour operators, and other stakeholders in the industry. The grant program will be tailored by component based on PROFIT's intervention framework and information obtained in the assessment and consultations. While it is envisioned that there will be substantial technical overlap between each component of the wider tourism grant program, each component (e.g, vertical linkages, horizontal cooperation, and support markets) will have a specific set of criteria and priorities as a way of targeting a range of key constraints and opportunities in the overall industry.

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Draft SOW for tourism industry analysis focusing on CBT	Jul 05	Aug 05	RM, MF	<ul style="list-style-type: none"> Finalized SOW and budget
Identify and select consultants to perform work	Jul 05	Aug 05	RM, MF	<ul style="list-style-type: none"> Consultant agreements and dates locked in
Conduct the analysis	Oct 05	Nov 05	RM, MF, SP, STTA, District Managers	<ul style="list-style-type: none"> Pre-work schedule of work List of locations and proposed meetings Interim reports on progress
Organize presentation of findings and workshop of CBT community to discuss lesson learned	Dec 05	Dec 05	STTA, RM, MF	<ul style="list-style-type: none"> Draft summary report for public distribution Presentation of summary report Post presentation workshop to discuss findings and here feedback Revised and finalized summary report
Internal written report to PROFIT providing recommendations on high potential targets for technical assistance or financial support	Dec 05	Dec 05	STTA	<ul style="list-style-type: none"> Draft recommendations report for PROFIT Revised and final recommendations report
Design grant program for tourism based on PROFIT intervention framework, assessment, and stakeholder consultation	Dec 05	Feb 06	MF, SP	<ul style="list-style-type: none"> Finalized grant program for strengthening CBT in Zambia
Launch tourism grant program	Feb 06	On-going	MF, SP	<ul style="list-style-type: none"> First award by Mar 06 with follow-on awards through out the year based on program design

Commercial Upgrading Strategy for the Tourism Industry

Enabling Environment

PROFIT will not focus on enabling environment issues in the tourism industry in terms of direct lobbying or advocacy assistance to actors in the tourism industry. PROFIT will identify and communicate enabling environment constraints and opportunities to MATEP and other appropriate programs and organizations.

Vertical linkages

As part of the tourism industry grant program, PROFIT will have a specific component to facilitate appropriate vertical linkages. PROFIT will design the vertical linkages grant component based on the findings from the study and in coordination with MATEP's market analysis efforts. In general, PROFIT will target linkages that are commercially viable, and enhance the ability of local communities to contribute to and benefit from the competitive position of the specific channel in

which they are linking and the over all industry. More specifically, grants will target linkages between communities and tour operators or lodges that demonstrate a real co-dependence as part of their strategy for building competitive advantage in the marketplace. Awardees will also have to demonstrate clear potential for real and sustainable returns to the community and the lead firm(s).

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Internal assessment of recommendations report in coordination with MATEP	Nov 05	Dec 05	RM, MF, SP	<ul style="list-style-type: none"> Internal prioritized list of high potential linkages targets Agreement with MATEP on coordination and approach of the vertical linkages component of the tourism grant program
Drafting of vertical linkages component of tourism grant program	Jan 06	Feb 06	MF, SP	<ul style="list-style-type: none"> Finalized vertical linkages component linked to wider tourism approach and grant program
Award and monitoring of linkages grants	Feb 06	On-going	MF, SP	<ul style="list-style-type: none"> Progress reports Year-end assessments and recommendations for adjustments

Horizontal Cooperation

Similar to vertical linkages horizontal cooperation will be facilitated through the grant component. Tourism provides substantial opportunity for highly capable communities to functionally upgrade, but only if they can cooperate effectively. The horizontal cooperation grants component will target opportunities in which communities can operate a complete tourist business that includes room and board, entertainment (e.g., safaris), asset management, financial transparency, and broad-based community involvement (directly or indirectly). This activity will be closely coordinated with MATEP, but will likely include working with DANIDA in Mumbwa District on developing and scaling up a CRB trust model, fostering community groups to become suppliers of goods and services to tourist lodges, and looking for targets of opportunity where there is substantial commercial potential for a community to take on greater ownership in delivering tourist services (lodge, entertainment, crafts, etc.). The specific component design will be based on recommendations from the assessment and consultation with stakeholders.

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Internal assessment of recommendations report	Nov 05	Dec 05	RM, MF, SP	<ul style="list-style-type: none"> Internal prioritized list of high potential cooperation targets
In-field assessment of other private, public or donor-driven models of cooperation	Nov 05	Dec 05	RM, MF, Field Staff	<ul style="list-style-type: none"> A prioritized list of potentially commercially viable group activities that could be replicated or scaled up by PROFIT
Drafting of horizontal cooperation component of tourism grant program	Jan 06	Feb 06	MF, SP	<ul style="list-style-type: none"> Finalized horizontal cooperation component tied to wider tourism approach and grant program
Award and monitoring of cooperation grants	Feb 06	On-going	MF, SP	<ul style="list-style-type: none"> Progress reports Year-end assessments and recommendations for adjustments

Support Markets

The support markets component will include potential awardees in the areas of finance, sector specific and non-sector specific products and services. The support markets component will target grants that facilitate commercially grounded products and services that either improve a communities' ability to generate profits in their tourism activities, improve a specific channel's competitive position, and/or foster a stronger industry. Specifically, the support markets component will target grants in the following areas:

- Finance – Grants that foster key financial services for communities or lead firms in the tourism industry, including credit (embedded value chain or third party), savings, insurance, leasing, etc.
- Sector specific – Grants that facilitate services flowing to or from communities that enhance the competitive position of the target channel. There will be cases where local communities will best be served by fostering their involvement in the tourism industry through a supporting role, and it will be through the support market grants component where PROFIT will fund such initiatives. Grants that actively foster tourism-specific products and services (e.g., localized crafts, entertainment, transport, etc.) to communities that are active in core tourism activities (accommodation, asset management/operations, etc.) will be encouraged.
- Non-sector specific – Products and services that are non-tourism specific, but may be tailored to tourism will also be encouraged to participate in the grant program under this component – for example, communications platforms (e.g., SMS, cell phone, internet connectivity, etc.) and generalized hospitality services (e.g., restaurants, taxis, etc.).

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Internal assessment of recommendations report	Nov 05	Dec 05	RM, MF, SP	<ul style="list-style-type: none"> • Internal prioritized list of high potential support markets targets
Drafting of support markets component of tourism grant program	Jan 06	Feb 06	MF, SP	<ul style="list-style-type: none"> • Finalized support markets component tied to wider tourism approach and grant program
Award and monitoring of support markets grants	Feb 06	On-going	MF, SP	<ul style="list-style-type: none"> • Progress reports • Year-end assessments and recommendations for adjustments

D. MARKET SCANNING

1. Twice Yearly Innovation Grants Program

PROFIT will establish a regular innovation grant program as a mechanism to solicit innovative services and programs that are fostering private sector growth. The timing of these solicitations will remain flexible in order to assess the workload involved in the process. The grant program will not only provide a mechanism for organizing solicited proposals, but will also be an important mechanism for market scanning and fostering innovation in private sector development initiatives. The innovations grant program will be a separate rolling program and will not be tied directly to the range of highly targeted grant awards that PROFIT will use as part specific industry upgrading strategies.

Starting in year two PROFIT will organize yearly learning events to capture lessons learned from the various grant recipients and other efforts in Zambia that facilitate private sector development. The majority of the regular competitions will be open to all based on a consistent set of criteria that would include formally registered NGOs and for-profit firms that are working on private sector development programs in Zambia and can propose programs that:

1. identify the market failure(s), constraint, and/or opportunity(s) the intervention is attempting to address;
2. articulate an innovative approach that facilitates localized and commercially viable solutions to the identified market failure(s), constraint(s), and/or opportunity(s);
3. limit the use of highly subsidized or entirely free services, and
4. articulate a carefully planned exit strategy that explains the mechanisms through which impacts will be sustained.

At times the program will introduce additional criteria to be defined around specific themes that may include an emerging industry, a specific service or service type, a new technology, etc.. The

grants are proposed to be smaller in size (max of US\$50,000) and act as pilots or assist in scaling up promising approaches. While there is no financial limit, or even a limit to the number of awards made following a solicitation, the key criteria is potential return on USAID investment. In line with SO5 focus, priority will be given to export-focused initiatives that have the potential to engage and benefit the small-holder and producer economy. . Activities in launching the innovations grant program include:

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Design regular innovations grant program	Oct 05	Nov 05	SP, MF	<ul style="list-style-type: none"> • Present draft criteria and process to USAID for comment • Finalize base selection criteria and process • Draft and finalize in coordination with USAID the launch announcement of innovations grant program • Draft and finalize the first year's schedule including two awards by Oct 06
Announce rolling grants competition, including date for first award	Nov 05	Feb 06	SP, MF	<ul style="list-style-type: none"> • Finalized announcement placed in selected media • Bidders conference •
Perform evaluation process and award first grant	Feb 06	Mar 06	SP, PROFIT Team	<ul style="list-style-type: none"> • Selection committee organized • Selection committee binders • Selection committee meetings • Possible interviews or clarifying questions • Final award of grant
On-going Monitoring of grant	Mar 06	On-going	SP, PROFIT Team	<ul style="list-style-type: none"> • Progress reports and field visits • Periodic audits • Yearly grant program report
Track lessons learned and foster learning network	Jun 06	On-going	SP, MF	<ul style="list-style-type: none"> • Grantee defined learning agenda • Yearly lessons learned report • Meetings to assess interest in wider learning network for private sector development practitioners

2. On-going Market Scanning at Local and National Levels

In addition to the identified high-potential markets, PROFIT will continually scan local and national markets to determine emerging opportunities. PROFIT will coordinate much of its on-going market scanning activities with MATEP, especially in areas of cassava, groundnuts, and leather, with possible opportunities in the coffee sector. New developments in the paprika and horticulture sectors will be monitored closely to assess the opportunities for engagement with those industries. While the innovations grant program will be helpful in identifying emerging markets, PROFIT will also have periodic localized assessments by local staff to scan local private sector activity. PROFIT has already initiated the first localized market scanning effort with local staff. Activities will include:

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Perform local private sector scan	Jul 05	Aug 05	PROFIT Team	3. Local staff reports on private sector activities 4. Prioritized "value chains to watch list" 5. Lessons learned report from first market local scanning exercise
Periodic meetings with MATEP on emerging opportunities	Jul 05	On-going	RM, MF, PM	6. Short list of value chains that need additional investigation 7. Action plans for joint investigation of quickly emerging value chains
Daily business media scanning	Jul 05	On-going	CL, CN	8. Weekly summary of business news 9. Prioritized list of value chains to watch 10. Coordinated with localized and MATEP value chains to watch
Periodic meetings with local business people, donor programs, etc. to discuss emerging opportunities	Jul 05	On-going	PROFIT Team	11. Short list of value chains that are emerging as promising 12. List of stakeholders active in identified value chains
Based on MATEP, staff, other donors, and local media select emerging value chains for value chain analysis	TBD	TBD	TBD	13. Meetings to coordinate resource allocation 14. Draft plan for use of staff or consultants to perform value chain analysis 15. Value chain mapping and report 16. Results sharing event 17. Prioritized list of constraints and opportunities

E. CROSS CUTTING ISSUES

1. Information and Communication Technology (ICT)

The majority of ICT services activities will be designed and targeted as part of industry-specific upgrading strategies. In addition, PROFIT will perform a market analysis on mobile phone voice and SMS services to determine promising platforms for market information services. Depending on the nature and promise of certain platforms, PROFIT will design a targeted grants program to address key binding constraints or foster high-potential opportunities. The activities will include:

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Perform ICT services market analysis focusing on mobile voice and SMS/data services – coordinated with SNV, ILO, and other appropriate partners	Dec 05	Dec 05	RM, MF	<ul style="list-style-type: none"> • Analysis of already available commercial platforms for sending and tailoring SMS messages • Analysis of various commercial media content providers • Analysis of potential revenue streams for third party services (i.e., subscriber SMS, radio content providers, etc.) • Prioritized list of ICT services markets where PROFIT should target its resources

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Perform ICT services market analysis focusing on mobile voice and SMS/data services – coordinated with SNV, ILO, and other appropriate partners	Dec 05	Dec 05	RM, MF	<ul style="list-style-type: none"> • Analysis of already available commercial platforms for sending and tailoring SMS messages • Analysis of various commercial media content providers • Analysis of potential revenue streams for third party services (i.e., subscriber SMS, radio content providers, etc.) • Prioritized list of ICT services markets where PROFIT should target its resources
ICT Services Market grant program	Jan 05	On-going	SP, MF	<ul style="list-style-type: none"> • Finalized grant program solicitation targeting key constraints or opportunities • Selection Committee organized • Selection of grant recipient(s) • Monitoring and progress reports on financial services grants

2. Financial Services Industry

PROFIT is taking a three pronged approach to finance. The first prong and the most important in the short to medium term is value chain financing, as it provides the vast majority of productive finance for small-holders and MSEs. At present, the financial sector is not a serious player in this regard and PROFIT will have to give priority to making value chain finance efficient and effective in order to maintain access for hundreds of thousands of small-holders and MSEs. The second prong focuses on facilitating improved and more tailored third party financial services for selected value chains. Examples of these services will include insurance for livestock, leasing for farm equipment for crops, loans for technology development in honey, and loans for on-farm/plant capital investments. In terms of access to credit, DCA will be used where possible to facilitate increased access to key players in the industries where PROFIT is working. PROFIT will also target opportunities that are presented from warehouse receipts. Targeted technical assistance to the lender and borrower will be provided when needed to facilitate a transaction.

The third prong of the PROFIT approach in finance will focus on the broader financial sector. Activities in this area will include the on-going monitoring of the DCA facility and warehouse receipts program, and savings and credit schemes that may benefit the selected industries (for example through the community vet payments schemes and in the community tourism sector using the CRB investment funds as liquidity) and a targeted grants program that will be designed in coordination with FSRP lead by SIDA, the related rural finance initiative funded by IFAD and PROFIT's DCA monitoring expert (Peter Armond). The aim of the program will be to target key binding constraints in the financial sector. The activities will include:

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Draft SOW for financial services market analysis	Jul 05	Aug 05	RM, MF	<ul style="list-style-type: none"> • Finalized SOW and budget
Hire DCA Monitor and financial expert	Aug 05	Sept 05	RM	<ul style="list-style-type: none"> • Peter Armond contracted and performing DCA monitoring and assisting PROFIT on its finance activities

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Perform financial services market analysis – coordinated with Gov, private sector, and other donor actors working in the financial sector	Oct 05	Dec 05	MF, STTA	<ul style="list-style-type: none"> • Analysis of value chain finance delivery mechanisms to determine potential efficiency gains • Analysis of commercial lending service markets to identify constraints and opportunities related to MSEs and lead firms in selected industries • Analysis of leasing and insurance service markets to identify constraints and opportunities related to MSEs and lead firms in selected industries • Analysis of production-based financing options such as warehouse receipts to determine accessibility for MSEs • Analysis of equity investment platforms and services to identify constraints and opportunities for lead firms in selected industries • Analysis of alternative financial service providers such as savings and credit schemes to determine viability and potential benefits to MSEs • Prioritized list of targets of opportunity where PROFIT should target its resources in based on FSRP
Financial Services Market grant program	Jan 06	On-going	MF, SP	<ul style="list-style-type: none"> • Finalized grant program solicitation targeting key constraints or opportunities • Selection Committee organized in coordination with FSRP • Selection of grant recipient(s) • Monitoring and progress reports on financial services grants
Work with MATEP and DCA Advisor to assess opportunities for other DCAs in Zambia	Nov 05	Dec 05	MF, SP, MATEP, STTA, PA	<ul style="list-style-type: none"> • Evaluation of DCA opportunities in collaboration with MATEP and Mary Miller (STTA)

3. Irrigation Sector

The majority of irrigation sector activities will be designed and targeted as part of industry-specific upgrading strategies. However, irrigation and improved water management technologies are critical to the development and upgrading of a wide variety of industries, and PROFIT will conduct a survey of existing water potential especially in Southern, Eastern and Copper belt provinces with a view of stimulating private sector led technology supply chains. PROFIT will attempt to analyse supply and demand-side factors defining and limiting the expansion and adoption of irrigation and other on-farm technologies. PROFIT will endeavour to build around irrigation technology supply a cluster of other yield enhancing, production and processing technologies such as hybrid seeds, improved tillage technology and agrochemicals, in order to stimulate a profitable technology based Business Development Service.

PROFIT will strengthen existing irrigation groups from the previous CLUSA and IDE programs in order to mainstream them into production of the new promising value chains identified. These clusters of farmers will be pulled along the value chains by specific industry leaders.

The activities will include:

Activity description	Start date MM/YR	End date MM/YR	Staff	Outputs
Draft Internal SOW for irrigation and water management sector analysis	Nov 05	Nov 05	PM	<ul style="list-style-type: none"> Finalized SOW Recommendation on PROFIT water strategy to be implemented
Perform irrigation and water management sector market analysis – coordinated with Gov, private sector, and other donor actors working in the financial sector	Dec 05	Dec 05	PM, field staff	<ul style="list-style-type: none"> Analysis of commercial irrigation and water technology markets, particularly in rural areas to identify constraints and opportunities related to MSEs and lead firms in selected industries Analysis of commercially grounded input delivery systems to increase accessibility for MSEs Prioritized list of irrigation delivery markets where PROFIT should target its resources
Identify and work with regional agricultural input supply firms in order to develop a private sector led irrigation technology supply chain in Zambia	oct 05	On going	PM,Field staff	<ul style="list-style-type: none"> Analysis of agro input suppliers to identify potential producers and stockists of irrigation technologies
Conduct BDS training for micro irrigation dealers to offer embedded after sale service to technology clients	Oct 05	On going	PM,Field staff	<ul style="list-style-type: none"> Development of sustainable technology supply chain based on profitability of business and not donor support
Link local technology suppliers to manufacturers in Asia in order to promote mass marketing of affordable micro irrigations	Oct 05	On going	PM,field staff	<ul style="list-style-type: none"> Readily available affordable irrigation technologies for MSEs
Work with research and development institutions such as GART and CDT in order to conduct on farm irrigation and tillage technological trials and enhance adoption rates.	Oct 05	On going	PM,Field staff	<ul style="list-style-type: none"> Analysis of adaptable technologies suitable for small holder farmers such as micro drip systems,small tractors and micro diesel engines.
Irrigation and Agricultural Technology grant program	Nov 05	On-going	MF, PM, SP	<ul style="list-style-type: none"> Finalized grant program solicitation targeting key constraints or opportunities Selection Committee organized Selection of grant recipient(s) Monitoring and progress reports on financial services grants

4. Emergency Plan HIV/AIDS Sensitization Activities

A sub-agreement for the duration of one year and worth \$400,000 has been made to Comprehensive HIV/AIDS Management Program (CHAMP) to carry out the PROFIT Emergency Plan activities related to HIV/AIDS awareness and in particular, behavioural change related to abstinence and being faithful.

The goal of this project is to establish a viable and sustainable HIV program that is mainstreamed into the PROFIT Projects activities, focusing on HIV prevention using the CHAMP Abstinence and Being Faithful model as the core of the HIV program. The beneficiaries of the HIV program will include PROFIT staff, the small-holder producer and farmer clients of PROFIT, and the surrounding communities. Specific targets set for the project include:

- 500 community outreach HIV/AIDS prevention programs that promote abstinence and or being faithful
- 500 individuals trained to provide HIV/AIDS prevention programs that promote abstinence and or being faithful.
- 150,000 individuals reached with community outreach HIV/AIDS prevention programs that promote abstinence and or being faithful

The above goals will be met through:

- Training PROFIT's field and administrative staff
- Utilizing the depots and farmer groups supported under previous CLUSA and IDE programs as focal training and sensitization centres.
- Utilizing the network of contract farmers, farmer groups and District Farmer Associations established under the Zambia National Farmers Union as entry points to PROFIT's client base and surrounding communities. A Memorandum of Understanding to this effect will be signed by August 2005
- Utilizing existing mass media channels accessed by the farming and rural communities such as The Farmer magazine of the ZNFU and the Voice of the Farmer radio program.
- Developing a model for the PROFIT HIV/AIDS program that can be implemented in a variety of small scale farming communities, and equally provide awareness and be mainstreamed by PROFIT staff
- Training and IEC materials will strengthen the Community Educators' skills when developing their mass mobilisation techniques, which will be utilized to disseminate Abstinence and Being Faithful messages in their communities.
- Linkage with other Emergency Plan-funded projects to obtain synergies and maximise impact.
- On-going reviews to ensure that best practice guidelines are followed and targets and goals are met

Methodology

The methodology that will be implemented for HIV/AIDS mainstreaming in the PROFIT project activities will follow closely the successful model developed and implemented by CHAMP in the cotton industry in Zambia during 2004/5 in which the value chain and associated clusters and groups became a conduit for sensitization and Abstinence and Being Faithful trainings, education related to counselling, testing and treatment, and care and support services. Key aspects of this model include:

- Ensuring that the HIV Workplace program is strengthened to allow this to be extended to the outreach communities
- Training of Peer Educators at all levels of the workplace and community structures, with the inclusion of skills and tools for information transfer included in the training of these educators

- Identifying current provincial, district and community level HIV related services and interventions that can be integrated into or linked to the HIV program
- Undertaking large scale sensitisation programs, so that the majority of community members are aware of the HIV program, and are sensitised on issues relating to Abstinence and Being Faithful
- Supporting the HIV program, and educators with IEC materials that are relevant to the program, and are easily understood by the target populations

The main thrust of the HIV prevention strategy will be the promotion of abstinence and being faithful. The presentation of these strategies will be comprehensive and relate to the human stages of life. To meet the objective of the project, to promote HIV/AIDS prevention strategies, abstinence will be presented in its context of everyday life and its relationship to HIV/AIDS prevention. Topics for discussion include the medical, social, cultural and religious aspects of abstinence, and personal choices related to employment, personal conviction and their relationship to HIV/AIDS prevention, and will relate to the small scale farmer and their partner/s. Interventions on being faithful will follow the same themes as those for abstinence and HIV/AIDS prevention. They will include personal commitment, making choices, adherence to religious beliefs, following medical advice and social and cultural mores. The overall theme that will guide the intervention is the recognition that abstinence and being faithful are not new behaviours, but are choices that we all make for various reasons as life evolves. Safe and consistent condom use as a behavioural choice will also be discussed and in this respect, the A,B & C guidelines set out by the US Office of the Global AIDS Coordinator will be followed.

The community HIV Peer Educators will be composed of depot workers, extension staff, contract farmers, distributors, area assistants, leaders of local faith-based organizations and other community members will be selected by the communities and will undergo in-house training in all six (6) provinces. Training will be provided as close as possible to the communities that are included in the training to maximise participation and reduce on cost.

Community HIV Peer Educators will be provided with training manuals, knowledge, skills, educational materials and mass mobilization techniques to be able to disseminate Abstinence and Being Faithful messages in their communities with a focus on the target of 150,000 people being sensitised. This may be undertaken through methodologies including sensitisation sessions, drama performances, cultural activities such as dances, songs and sports, and distribution of IEC materials.

Community HIV Peer Educators will collaborate closely with other outreach programs such as farmer trainings, field days and market days where they will be expected to deliver the AB Prevention Strategy packages to participants. The Community HIV Peer Educator will be expected to implement an HIV/AIDS work plan as well as to take advantage of every gathering of any kind to deliver appropriate HIV/AIDS messages.

IEC materials will be specifically developed focusing on the communities to be targeted under the PROFIT project. These will be produced in English and translated into local languages to ensure an effective transfer of knowledge to the communities targeted. IEC materials will include brochures, leaflets, banners and posters.

To ensure long-term sustainability, the program will focus on capacity building of PROFIT and ZNFU staff, small scale farming communities and HIV related services and organisations that are linked to the PROFIT HIV program. The project will be reviewed on an On-going basis, using pre-determined indicators that follow best practice guidelines.

Indicators

Key indicators that will be tracked and reported on for this program include:

- Number of communities that have HIV prevention programs that promote Abstinence and Being Faithful methodologies (broken down by province and district)
- Number of individuals trained to provide prevention programs that promote abstinence and or being faithful (broken down by gender and age groups)

- Number of individuals reached with community outreach HIV/AIDS prevention programs that promote abstinence and or being faithful (broken down by gender)
- No of different IEC materials developed for the program (broken down by type and language)
- Number of IEC materials distributed by Province, District and Community program
- Number of sensitisation sessions held that promote abstinence and or being faithful
- Reduction in stigma and discrimination

PROVISIONAL HIV/AIDS SENSITISATION WORKPLAN

	Month											
	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Inception												
Resource Mobilisation												
Workplace HIV/AIDS Policy Review												
Workplace Program Review and Enhancement												
Mapping the targets												
IEC Development												
Training												
Sensitisation												
Monitoring and Evaluation												
Project reporting												

5. Producer Organizations

In the design of PROFIT's interventions within the selected industries, emphasis will be placed on identifying suitable small producer organisational models that have the ability to address the constraints specific to the industry. PROFIT will not seek to form producer groups per se, but will work with those groups that demonstrate commercial ability and a willingness to cooperate to address joint constraints. There are no geographical or commodity-based limitations on these activities. Activities related to horizontal cooperation are identified within each subsector activity schedule and will be based on the PROFIT value chain assessments. Priority will be given to researching different models of small-holder organisation to assess viability and usefulness in graduating small-holders to higher levels of the value chain. It is assumed that emphasis will be given to linkage dependent groups which have the advantage of a long term commercial partner within the value chain though linkage independent models will also be investigated where appropriate. With the advantage of the field staff capacity in group development from previous CLUSA programs, it is assumed that most organisational development work will involve direct staff time, though grant provision for capacity building of commercially viable producer organisations will be considered under the Innovation Grant Facility.

6. Environmental Sustainability

The concept of environmental sustainability cuts across all program activities. Within the cotton sector, emphasis will be put on the development of extension systems that promote the sustainable farm system based on conservation farming technologies to prevent the soil resource misuse that characterises the industry. Interventions in the NTFP sector will be mindful of sustainability while enhancing the value of forest resources. Models of business that promote best environmental practice with commercial grounding will be investigated to assess the viability of rolling out, particularly in environmentally sensitive areas such as Game Management Areas and in proximity to protected areas.

7. Gender

While it is acknowledged that most commercial agricultural activities are male dominated, PROFIT will assess target industries that have a female orientation such as in the poultry subsector to enhance female participation in commercial production. Within the honey sector, efforts will be made in collaboration with lead industries to engage women in improved technology production, particularly improved hive management systems that can be operated in proximity to the household. Surveys have shown that the majority of adopters of conservation farming technologies are women, who recognise the importance of risk mitigation in household food production, and it is intended that extension systems within the cotton sector promoting conservation farming are also targeted at women members of the farming household.

F. COORDINATION WITH OTHER ORGANIZATIONS

1. MATEP

Although the PROFIT and MATEP programs have their separate objectives and deliverables, it is important that both projects coordinate their activities to ensure maximum efficiency in the achievements of the USAID SO5 objectives. Industry selection needs to be coordinated as far as possible, responsibilities within the selected value chains need to be defined, and both projects should be able to learn from each other to the benefit of the end clients.

To this end, formal monthly coordination meetings will take place between the Chiefs of Party of the two programs, together with any other key staff that are appropriate to the agenda. These formal meetings will compliment the informal on-going collaboration between the two projects. On a quarterly basis, the key staff from both projects and their respective CTOs will meet to review progress and establish work plans for the following quarter. These meetings will take the place of a formal Steering Committee. There will also be scope for inter-project industry based meetings (for example in tourism) if necessary, attended by the relevant technical staff from each project.

2. Zambia National Farmers Union

PROFIT will collaborate closely with ZNFU on several fronts. First, the sector studies being developed by the ZNFU/GRZ Joint Committee on the National Planning Process and Food Deficit will provide an excellent framework in which industry and government have identified constraints to economic development, and by using these documents in the research process PROFIT will be in line with national development and industry priorities. Second, ex officio membership of and collaboration with the relevant sub-sector committees as noted in the sector work plans will ensure compatibility with the demands of the industry as a whole. Finally, at the field level, using the established structure of the ZNFU as a conduit for interventions will add elements of sustainability and efficiency to the program's activities.

3. Other Trade Associations

While PROFIT is not a institutional capacity building project, it will work with trade associations as and when relevant to project aims

4. Government of Republic of Zambia

PROFIT will ensure that GRZ, especially Ministry of Agriculture and Cooperatives staff, are aware of PROFIT activities in the field and where pertinent, the MACO field staff will be included in general training but otherwise kept informed of program developments. As and when project goals and activities relate to the ongoing MCTI-led Private Sector Development initiative, that Ministry will be informed and collaboration sought.

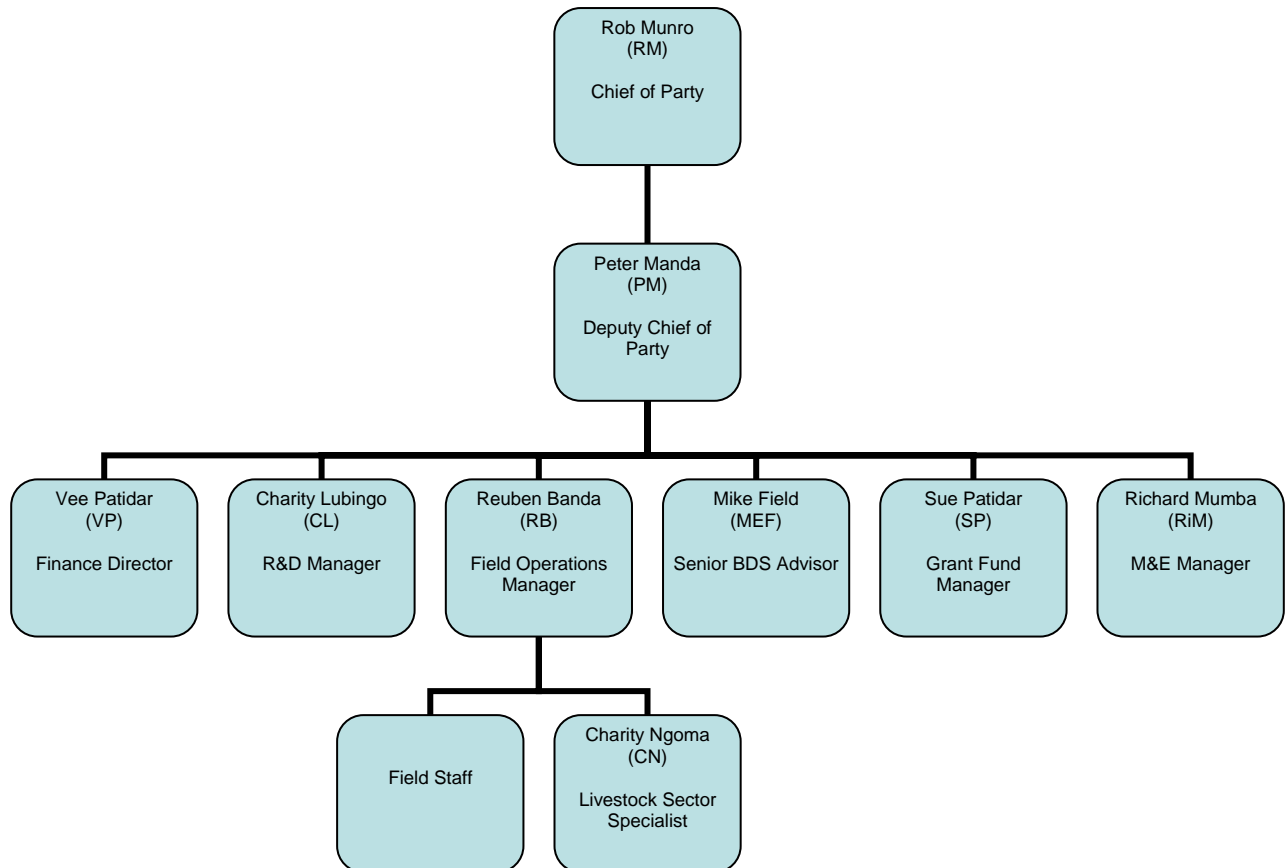
5. Other Organisations

During the course of the program, PROFIT will collaborate with a wide range of private sector and donor organisations. Specific private sector examples include the Agricultural Consultative Forum (ACF), Zambian Chamber of Small and Medium Business Associations (ZCSMBA) and various provincial chambers of commerce and other umbrella trade associations. The Agribusiness Forum provides a good interface between the PROFIT program and the major players in the out grower industry. Collaboration with other donor organisations focusing on private sector development such as SNV, Land o Lakes, and the World Bank Agricultural Development Programme will be sought to identify synergies and efficiencies and prevent programme duplication. The exact nature of collaboration with these other entities depends on the changing scope of the PROFIT programme, the industries selected and the extent of intervention within the selected industries.

6. C-SAFE

Where operational areas overlap (particularly in Southern Province) collaboration with C-SAFE will be sought, where possible, to tie in market development to their activities, particularly in relation to input supply, where food security crops and crops with dual purpose, such as sorghum, can be fed into PROFIT's cotton farm system development plans.

APPENDIX 1: PROFIT PROGRAM SIMPLIFIED ORGANISATIONAL CHART



ANNEX 2: SUB SECTOR SELECTION ANALYSES

COTTON

Criteria	Description
Growth Potential -- Ability to Turn Competitive Advantage into Competitiveness	
Market Demand and Growth Potential	<ul style="list-style-type: none"> • Cotton is a commodity that has a solid demand, but with variable production quantities (based on a range of factors) pricing fluctuates within a wide band • The lead firms are almost all experienced international traders of cotton and have established markets for cotton • Zambia does have the ability to compete against regional and international competitors especially in the near to medium term, but production yields will hold to the key to how effective the Zambian cotton industry will be
Match between local capacities and nature of competitive advantage	<ul style="list-style-type: none"> • For cotton, Zambian small farmers can produce at acceptable price points to match efficiency characteristics of international demand in the near to medium term, but this is a precarious situation as yields do not provide the margins to small scale farmers needed to withstand any major shock (sharp decline in price, drought, etc.) • Assuming the issue of low yields can be addressed, longer-term competitiveness will be dependent on some consolidation of production (e.g., through larger farm sizes or highly integrated small farms) and/or some form of differentiation (i.e., quality, production techniques, certifications (organic), etc.) will be needed if Zambian farmers are to continue to generate wealth
Potential For Achieving Competitiveness	<ul style="list-style-type: none"> • Zambian cotton industry's ability to compete effectively will be dependent on improved yields and increased value chain efficiencies in the near to medium term. Longer term competitiveness will come from continual increases in production and efficiency along the chain and some form of differentiation. • Technology and management systems can have a dramatic effect on product efficiency in the Zambian cotton sector assuming reasonable adoption rates in improved on-farm practices and increased efficiency in supply chain management (e.g., especially the flow of embedded services and third party services) • The overriding determinant of competitiveness for Zambian cotton in the near to medium term is to decrease the per unit cost of production for export ready cotton at margins (for farmers, distributors, ginners, exporters, etc.) that generate wealth
Opportunities For Linkages	<ul style="list-style-type: none"> • There are substantial opportunities to increase backward linkages in cotton as it is a small scale crop in Zambia and the majority of ginners/exporters are medium and larger businesses • The large ginners/exporters are actively looking for more efficient ways to engage MSEs as a source of supply. • There is enormous potential for third party service and products that support the growth of an industry (i.e., irrigation, sprayers, transport, seeds, animal traction services, tractor services, and finance)

Criteria	Description
Government or Donor Interest / Existing Support Programs	<ul style="list-style-type: none"> • The government is interested in cotton, but has maintained a healthy distance allowing cotton to thrive in the last couple of years. However, with the growth in numbers of farmers, the industry should proactively engage government to maintain and improve the relationships • There are programs at the farm and processor levels where PROFIT can complement and create some synergies. In particular, the EU animal traction effort provides substantial potential for synergy (e.g., conservation farming practices, irrigation, and broader farm system development).
Ability to Achieve Scale of Results/Impact	
Number of MSEs	<ul style="list-style-type: none"> • There are large numbers of MSEs already participating in cotton production (183,000 working with Dunavant alone) that could benefit substantially with only minor yield improvements and decreases in cost of inputs • There has been rapid growth in the number of farmers over the last few years and the pace of growth should slow, particularly in light of the rapid development of alternate cash crops such as tobacco, but given continual improvements in value chain management and small-holder returns additional farmers will take up cotton production
Upgrading Potential	<ul style="list-style-type: none"> • At present the near to medium term fate of the industry is dependent upon MSEs upgrading their products and production processes through conservation farming practices • In the near term there is limited potential for small-holder to deliver higher value added functions along the value chain. Longer-term potential is possible if some targeted differentiation happens through organic certification or substantial improvements in quality • The channels for cotton are tied to the larger processors/exporters and unless they move to differentiate cotton in Zambia it is unlikely that higher value added channels will emerge within the cotton industry.
Potential for Broader and Deeper Increases in Income and Wealth Creation	<ul style="list-style-type: none"> • Given the low yields, farmers and ginners/exporters could see relatively large jumps in wealth creation if farmers adopt conservation farming and good farm practices (the CFU have consistently shown 100% yield increases in improved management trials) • If farmers adopt a more systemic approach to farming that increases yields and provides for crop diversification then their assets (i.e., land, animals, location, and capital (i.e., financial, labor, social, and human) will increase in value.
Potential For Employment Generation	<ul style="list-style-type: none"> • With yield increases of up to 100%, ginners/exporters would need to increase employment. Informal rural employment in the working of the larger cotton farms would increase. New employment would also come from new start-up support services in spraying, tillage, input retailers, etc.

Criteria	Description
Industry Leadership	
Nature of Industry Leadership with MSEs	<ul style="list-style-type: none"> • Lead firms are already investing in industry growth including MSE producers (i.e., embedded services, financial services, etc.) and input service providers. • Lead firms are beginning to establish more transparent relationships with MSEs (i.e., clarity of responsibilities through contracts/written terms and consistency of enforcement, etc.) and would like to increase the level of transparency within their supply chains • The lead firms are already trying to address social constraints (i.e., HIV, gender bias, cash-flow needs, etc.) to MSE participation and benefit in the long-term
Nature of Industry Leadership for Broader Industry Growth	<ul style="list-style-type: none"> • Lead firms do have a long-term commitment to the cotton industry and Zambia – demonstrated by large investments and willingness to invest in small-holder production, including social constraints • Lead firms are interested in fostering more efficient third party services when appropriate (e.g., Dunavant's distributor scheme) • There seems to be a willingness to work with other lead firms to solve industry-wide problems (e.g., Dunavant and Clark have established some dialogue regarding issues of side-selling and supply chain management)
Potential for Broader Industry Leadership	<ul style="list-style-type: none"> • There are three solid lead firms (e.g., Dunavant, Clark, and Continental) and a range of other firms that may evolve into larger players. • Given success in establishing greater efficiencies at the MSE production level and in supply chain management practices, there is substantial potential to increase the number of strong lead firms in the cotton industry

TOURISM:

Criteria	Description
Growth Potential -- Ability to Turn Competitive Advantage into Competitiveness	
Market Demand and Growth Potential	<ul style="list-style-type: none"> • There is evidence of strong effective demand for tourist products in Zambia especially from regional and international customers – domestic tourism is does seem to be growing, but is not the target of most tourism enterprises • The industry has current capacity to compete against regional and international competitors, but the industry has not fully utilized its potential to differentiate its products/assets
Match between local capacities and nature of competitive advantage	<ul style="list-style-type: none"> • Zambia competes in a tourist market that is relatively differentiated given the main draw is natural assets that cannot withstand mass tourism – the nature of which has resulted in a competitive environment that limits any cooperation at all levels among Zambian tourist firms. • Livingstone is the exception in that Victoria Falls can handle large volumes of tourists responsibly, but more effective oversight/coordination bodies need to be in place to limit any negative impact on the falls • In the near to medium term Zambian tourism firm capacity is designed to only compete with highly differentiated tourist products, which makes sense given the poor infrastructure and limited industry organization/coordination. With greater efficiency and cooperation the Zambian tourism industry could increase its ability to handle volume responsibly in the medium to longer term, but it will depend on broader growth in the industry and greater participation from and benefits for communities living on or near the tourist assets
Potential For Achieving Competitiveness	<ul style="list-style-type: none"> • The main market for non-consumptive tourism is Livingstone and Victoria Falls, followed closely by differentiated safari and adventure tourism products in the Luangwa and Zambezi valleys. All markets are growing and there is substantial potential for increased linkages between falls tourists and safari/adventure tourist. There is also potential for add-on products like visiting communities, localized nature sites, and other cultural and adventure tourism products. • There is potential for technologies and management systems to increase production and/or service delivery quality and efficiency – ICT and improved asset management methodologies (i.e., concessions, tendering criteria, etc.) • There is potential for marketing/branding efforts to effectively differentiate Zambian tourism products (i.e., productization of assets and packages, regional marketing, strategic alliances, social marketing, etc.) • Growth is already happening, but it is in fits and starts and highly dependent on individual firm contacts – however, cooperation on joint and country marketing strategies is now beginning to take place among industry leaders

Criteria	Description
Opportunities For Linkages	<ul style="list-style-type: none"> • There is some potential for forward/backward linkages between large and small enterprises, but mostly for MSEs to provide side/support products and services to lodges or tourist groups – the exception being safari hunting that has direct links between tour operators and communities, but at an arms length. • There is marginal interest among larger firms to link with MSEs as a source of supply/services and at times for tourist product development. • In many cases the greatest potential for MSE participation in and benefit from the tourist industry in through third party services and products that support the growth of tourism (i.e., food production, finance, crafts, and ICT services)
Government or Donor Interest / Existing Support Programs	<ul style="list-style-type: none"> • There is positive government interest in tourism, but unclear if expectations are reasonable considering the current position of the industry • There are a wide range of existing donor programs that are engaged in the tourism industry with a wide range of agendas. PROFIT would need to have a clear understanding of the commercial grounding of any program to determine the potential for synergies and complementary activities.
Ability to Achieve Scale of Results/Impact	
Number of MSEs	<ul style="list-style-type: none"> • There are quite a few MSEs operating in and around communities that are located near tourist assets, but their participation in the industry is limited given the seasonality and low-volume/high-margin strategy most tourist firms have taken. • There is a potential for increases in the number of MSEs that can participate and benefit, but it is unlikely in the near to mid term that the numbers will be substantial in terms of direct involvement. Secondary involvement (food production, crafts, transport, etc.) has potential for increasing the numbers of MSEs
Upgrading Potential	<ul style="list-style-type: none"> • There is potential for targeted MSEs to upgrade their products and production processes including facilities, management, and tourism products, but there is limited potential for scaling upgrading activities given the differentiated nature of tourism products in Zambia • There is some potential for MSEs to deliver higher value added functions along the value chain – for tourism many of the higher value added functions are in the context of supporting services and products like entertainment, crafts, food preparation, etc., which MSEs can deliver • There is some potential for MSE ownership schemes to maximize benefits to local communities, but there is limitation on using this approach to achieve scale
Potential for Broader and Deeper Increases in Income and Wealth Creation	<ul style="list-style-type: none"> • There is potential for increasing revenues at the industry and firm level, but there are substantial limitation to increase incomes at the community level in the near term (except through the safari hunting sector) due to the incentives structure of low-volume/high-margin tourist products • There is some potential for increasing returns on MSE assets (i.e., land, location, and capital (i.e., financial, labor, social, and human) – when MSE ownership can be established or appropriate support services define the nature of how MSE participate in the tourist industry. • There is limited potential for increasing incomes and wealth in the near, medium, and longer terms, and the potential for MSEs will be dependent on commercial grounding of activity, ownership of tourist assets, and appropriateness of support service

Criteria	Description
Potential For Employment Generation	<ul style="list-style-type: none"> The Livingstone region has solid potential for employment generation as it can handle sharper increases in tourist numbers. Other potential tourist sites that do not have the ability to handle sharp increases in tourist will have limited potential for employment generation. For MSE employment generation is more like to result from growth in support services/products.
Industry Leadership	
Nature of Industry Leadership with MSEs	<ul style="list-style-type: none"> There is limited willingness of lead firms to invest in industry growth including MSE producers (i.e., embedded services, financial services, etc.) due to individual/disconnected structure of the industry There is minimal transparency of relationships with MSEs (i.e., clarity of responsibilities through contracts/written terms and consistency of enforcement, etc.) There is commitment and willingness to address local social constraints (i.e., HIV, gender bias, cash-flow needs, etc.) to MSE participation and benefit in with individual tour operators, but it is limited.
Nature of Industry Leadership for Broader Industry Growth	<ul style="list-style-type: none"> Individual lodge owners are committed to Zambia and their business, but a sense of industry is only now forming There is some interest in fostering more efficient third party services, but it is limited and the disconnection among tour operators is a constraint There is a willingness to work with other lead firms to solve industry-wide problems
Potential for Broader Industry Leadership	<ul style="list-style-type: none"> There are quite a number of firms that are driving market growth, and while the larger more prominent firms cooperate, there is still an industry-wide limitation to working together to address joint constraints There are serious issues in how to foster leadership for industry-wide growth -- given the highly differentiated products, relatively closed channels, and low-volume strategies most tour operators are taking

LIVESTOCK

Criteria	Description
Growth Potential -- Ability to Turn Competitive Advantage into Competitiveness	
Market Demand and Growth Potential	<ul style="list-style-type: none"> • There is evidence of strong effective demand for products being produced for the national and regional markets • Lead firms have ready market for products but are unable to meet demand • The livestock sector seems to have solid capacity to compete regionally if supply is stabilized so that it becomes constant instead of erratic and seasonal • The capacity to compete regionally is affected by the outbreak of diseases which usually lead to a ban on livestock movement.
Match between local capacities and nature of competitive advantage	<ul style="list-style-type: none"> • Local capacities are not consistent with the characteristics of demand that define competitive advantage – small-holders have limited ability to product quality animals for the market and, other than in select areas, cannot deal in volume. • The potential to attain efficiency in the local market is tied to the supply chain e.g transport for the farmer and quality for the buyer • The potential to attain product differentiation in short, medium, and/or long-term is tied to an improvement of technology and management systems .e.g good breeds due to artificial insemination, effective preventative health care, and animal management
Potential For Achieving Competitiveness	<ul style="list-style-type: none"> • The local domestic market is growing and should be growing over the near, medium, and long term. For example, between 2003 and 2005, the poultry industry grew by 30%. Growth could increase even faster in some regions where tourism is growing • There seems to be substantial potential for growth in the regional market for all forms of livestock products however this affected by the cost of packaging material and tax regimes that are regionally uncompetitive • Technology and management systems are likely to hold the key to increasing production, improving quality, and building brand loyalty • There is solid potential for industry to increase demand locally and regionally
Opportunities For Linkages	<ul style="list-style-type: none"> • There is substantial potential for forward linkages between large and small enterprise. • Large buyers are looking for more efficient ways to engage MSEs as a source of supply – e.g., Zambeef. • There is potential for third party service and products that support the growth of an industry (i.e., AI services, veterinary, finance, and ICT services) • There are significant on-farm and off-farm linkages between the livestock and crop sectors in the area of stockfeed, which is a fast-growing industry now exceeding 140,000mt/year.
Government or Donor Interest / Existing Support Programs	<ul style="list-style-type: none"> • Land O'Lakes program in dairy can provide synergy as can the work being conducted by ZATAC and Livestock Development Trust. • Changes in VAT status on animal feeds and other inputs and processed livestock products by the government can help facilitate the regional market .

Criteria	Description
Ability to Achieve Scale of Results/Impact	
Number of MSEs	<ul style="list-style-type: none"> • The numbers are substantial with upwards of 80,000 small holders with commercial potential and more that are subsistence level at national level • There is potential to increase the number of MSEs that participate and benefit in the live stock sector • There is a current gender imbalance with very few women involved in beef production (1 woman to 20 men), but potential for women in poultry and pig rearing is solid.
Upgrading Potential	<ul style="list-style-type: none"> • There is substantial opportunities and interest from lead firms in having MSEs upgrade their products and production processes (e.g., product quality, yields, and differentiation). • There is potential for MSEs to deliver higher value added functions along the value chain – higher grade products, semi-processed products, artisanal products (biltong) with improvement in technology. • Potential for MSEs to move to a higher value added channel within a sub sector . The leather sector presents such an opportunity
Potential for Broader and Deeper Increases in Income and Wealth Creation	<ul style="list-style-type: none"> • There is substantial potential for increasing revenues at the industry and firm level – given domestic and regional opportunities, improvements in animal health and yields, and increased transparency in grades/standards/price differentials • There is potential for increasing returns on the MSE assets (i.e., land, animals, location, and capital (i.e., financial, labor, social, and human)) through better husbandry, more efficient market linkages, and third party services. • There is potential for increasing incomes and wealth in rural areas in the near, medium, and longer terms through improved efficiency, market differentiation, and more robust linkages between processors and producers. • There is potential for increasing incomes and wealth in rural areas if the way the small scale farmers perceive livestock is changed (e.g., it should not only be looked at as a form of savings that the farmer sells to generate cash, but it should be looked at as a business).
Potential For Employment Generation	<ul style="list-style-type: none"> • With increased growth there will be employment and income generation -- employment generation would come from lead firms and MSEs delivering support services (e.g., veterinarians would find employment working with livestock farmers, feed producers, processors, butchers, financial services, etc.).
Industry Leadership	
Nature of Industry Leadership with MSEs	<ul style="list-style-type: none"> • There is willingness of lead firms to invest in industry growth including MSE producers (e.g., Zambeef, etc.) if they are assured of benefiting in the long term. • There is limited transparency of relationships with MSEs (i.e., clarity of responsibilities through contracts/written terms and consistency of enforcement, etc.). At present even the larger slaughterhouses do not provide price differentials based on quality when buying from the MSE sector • Unclear commitment and willingness to address social constraints (i.e., HIV, gender bias, cash-flow needs, etc.) to MSE participation and benefit in the long-term

Criteria	Description
Nature of Industry Leadership for Broader Industry Growth	<ul style="list-style-type: none"> • There is long-term commitment to industry and Zambia – defined by investment and national branding efforts (e.g., Zambeef, Pama, Kembe etc.), but greater commitment is needed to foster adherence to grades and standards (i.e., clear price differentials for different quality, incentives for innovation, etc.) • There is a high degree of potential in fostering more efficient third party services such as vet services, feed outlets, auction services, AI services, etc, but the payment and structure of these services will determine initial success • Unclear willingness of lead firms to work together to address industry-wide problems

SMALL SCALE MINING

Criteria	Description
Growth Potential -- Ability to Turn Competitive Advantage into Competitiveness	
Market Demand and Growth Potential	<ul style="list-style-type: none"> • There is strong effective demand for gem stones that are rough or cut in the national, regional, and international markets • Demand is likely to out pace Zambian production for some time • Zambian gems are competitive at the national and international levels
Match between local capacities and nature of competitive advantage	<ul style="list-style-type: none"> • Zambian small scale miners have limited capacity or interest to meet short, medium, and/or long-term demand for gem stones
Potential For Achieving Competitiveness	<ul style="list-style-type: none"> • The main markets for gem stones are growing and have substantial long-term potential, but Zambia gem stone mining industry is highly disconnected making it difficult for the industry to realize broader growth in the near term • There is substantial potential for technologies and management systems to increase production efficiency and effectively differentiate certain Zambian gem stones • There is solid potential for small scale mining industry to increase and stabilize demand given greater commitment and industry organization
Opportunities For Linkages	<ul style="list-style-type: none"> • There is limited potential for forward/backward linkages between large and small enterprises – the current structure fosters arms length linkages • There are few medium and larger buyers that are looking for more transparent and efficient ways to engage MSEs as a source of supply. • There is solid potential for third party services and products including transparent auction services, engineering services, mining equipment providers, and other mining services/products, but the disconnected industry, lack of strong leadership, and the chaotic competitive environment limits the development of any third party services in the near term to medium
Government or Donor Interest / Existing Support Programs	<ul style="list-style-type: none"> • It is unclear the positive/negative influence that government has on small scale mining since it is highly informal (who ever wants to go in the small scale mining simply has to apply and the government will issue a certificate (source: Mr. Chansa at ministry of mines))and will be difficult to formalize given the perceived cost/benefit and itinerant nature of many small scale miners • There are a few existing programs in the public and donors (e.g., MSDP, Women in Mining) sectors that can provide synergy and complementary activities.
Ability to Achieve Scale of Results/Impact	
Number of MSEs	<ul style="list-style-type: none"> • The number of MSEs operating in the small scale mining industry is hard to determine since they may be larger numbers at a given time, but very few of these miners are looking at mining as a career. Current figures from the Ministry indicate that there are 241 base metal miners, 735 gem stone miners, and 850 artisan miners • There is limited potential for increasing in the number of MSEs that can contribute, participate, and benefit

Criteria	Description
Upgrading Potential	<ul style="list-style-type: none"> • There is substantial potential for MSEs to upgrade their mining processes, but limited mechanisms to foster sustainable upgrading opportunities for small scale miners • There are substantial skill and equipment requirements (cutting, finishing, etc.) that limit MSE's ability to functionally upgrade • There is limited willingness to work together which also limits MSEs ability to upgrade • There is potential for MSEs to move to more formal and higher value added channels within the mining industry (i.e., local jewelry production channels), but the arms lengths linkages and itinerant nature of many small scale miners are limiting factors
Potential for Broader and Deeper Increases in Income and Wealth Creation	<ul style="list-style-type: none"> • There is potential for increasing revenues at the industry and firm level given substantial changes in the structure of the industry • There is potential for increasing returns on the MSE mining lands given greater commitment and investment from small scale miners
Potential For Employment Generation	<ul style="list-style-type: none"> • There is limited potential for enterprises (large and small) to create new employment opportunities derived from gem stone mining as there is limited processing opportunities at the mining level and limited incentives/capacity for growing individual mining operations.
Industry Leadership	
Nature of Industry Leadership with MSEs	<ul style="list-style-type: none"> • There is some willingness of among a few lead firms to invest in industry growth including MSE producers, but it is limited in terms of the number and size of formalized Zambian firms that add value through processing stones or creating jewelry. • There are examples of transparent relationships between MSEs and lead firms, but it is very limited due the number and size of the interested lead firms • Similarly, there are a few lead firms demonstrating a commitment to address social constraints, but potential is limited due to the number and size of lead firms
Nature of Industry Leadership for Broader Industry Growth	<ul style="list-style-type: none"> • There is long-term commitment to industry and Zambia from some of the lead firms, but limited • Limited interest in fostering more efficient third party services • There is limited willingness to work with other lead firms to solve industry-wide problems
Potential for Broader Industry Leadership	<ul style="list-style-type: none"> • There are few lead firms and they are rather small limiting any potential for leveraging PROFIT investments into real growth • There is limited short-term potential for increasing the number of strong lead firms in an industry – medium and longer-term potential is dependent on new investments

HIGH VALUE HORTICULTURE

Criteria	Description
Growth Potential -- Ability to Turn Competitive Advantage into Competitiveness	
Market Demand and Growth Potential	<ul style="list-style-type: none"> • There is evidence that if quality and quantity requirements of international markets are met there will be strong effective demand for horticulture products. • There is a ready international market for products in which small holders can participate eg baby corn and edible podded peas, and paprika but currently only 90 small scale farmers participating in the fresh produce export market and declining numbers of farmers are engaged in the paprika sector • The Industry is competing effectively against regional and international competitors
Match between local capacities and nature of competitive advantage	<ul style="list-style-type: none"> • The on-going difficulties in the paprika marketing environment, the consolidation in exporters of horticulture products, and the limited ability of smallholders to produce to international specification without strong industry leadership make the match between current local capacities and market requirements not very robust. • There is a geographic advantage for low grade horticulture exports to DRC, but the structure of the production chain and markets is highly chaotic, which will limit any ability to solidify a Zambian competitive advantage in the DRC market over the medium to longer term
Potential For Achieving Competitiveness	<ul style="list-style-type: none"> • The main market for export international horticulture is highly competitive, but given quality and quantity requirements can be met demand will remain solid. • There is substantial potential for technologies and management systems to increase production and services delivery efficiency given strong industry leadership • There is also substantial potential for technologies, management systems, and marketing efforts to effectively differentiate products, but leadership from exporters will be key to driving industry growth and providing opportunities to smallholders
Opportunities For Linkages	<ul style="list-style-type: none"> • There is some potential for forward/backward linkages between large and small enterprise, but it is limited due to lack of industry leadership and recent consolidations. • Currently there are no large buyers looking for more efficient ways to engage MSEs as a source of supply, although indications are that this could change. • If/when new exporter entrants emerge there will be substantial potential for third party services and products that will support growth in the horticulture industry (i.e., production inputs, finance, cold chain services, etc.)
Government or Donor Interest / Existing Support Programs	<ul style="list-style-type: none"> • There is government interest in horticulture, but the chaotic/informal nature of the industry at present makes it unclear how the government can improve the situation with the exception of reducing the air-transport costs.
Ability to Achieve Scale of Results/Impact	
Number of MSEs	<ul style="list-style-type: none"> • The number of MSEs operating in the horticulture out-grower schemes is small at present, and there is little or no indication or immediate interest from industry leaders to expand out-grower schemes – with new leadership this may change • At present there is limited potential for increases in the number of MSEs that can participate and benefit

Criteria	Description
Upgrading Potential	<ul style="list-style-type: none"> MSEs have been able to meet market requirements, but only with substantial investment from lead firms, that are at present unwilling to take on this risk. Furthermore, the cost of engaging MSEs (infrastructure, extension, accreditation etc) is extremely high. Without a change in leadership or leadership perceptions of working with smallholder there is limited upgrading potential, Within the informal export markets in DRC there may be potential for MSEs to deliver higher value added functions along the value chain, but this will be on an individual MSE basis
Potential for Broader and Deeper Increases in Income and Wealth Creation	<ul style="list-style-type: none"> There is currently very limited short-term potential for increasing revenues at the industry and firm level, given new entrants at the exporter level medium and longer-term potential could be substantial Limited short-term potential for increasing returns on the MSE assets (i.e., land, animals, location, and capital (i.e., financial, labor, social, and human). The current industry structure limits any real potential for increasing incomes and wealth in the near term. Assuming the structure will change then potential in the medium and longer terms seems much better
Potential For Employment Generation	<ul style="list-style-type: none"> There is limited potential for enterprises (large and small) to create new employment opportunities in the near term, but not in large numbers without new entrants at the exporter level of the industry.
Industry Leadership	
Nature of Industry Leadership with MSEs	<ul style="list-style-type: none"> There is limited willingness at present of lead firms to invest in industry growth including MSE producers (i.e., embedded services, financial services, etc.) In paprika transparency of relationships with MSEs is in question with some concerns. For baby corn the situation seems better, but there is limited interest in expanding small holder production There seems to be limited commitment and willingness to address social constraints in horticulture at present – mostly due to the lack of interest in working (i.e., HIV, gender bias, cash-flow needs, etc.) to MSE participation and benefit in the long-term
Nature of Industry Leadership for Broader Industry Growth	<ul style="list-style-type: none"> There is limited long-term commitment from industry leadership at present with limited interest in small-holders and limited investment in new product lines There is limited interest in third party service given the lack of interest in small-holders and the conservative investment profile at present Current conflicts in the paprika marketing environment prevent strong industry leadership in this subsector. There are limited numbers of firms in the horticulture and floriculture sectors
Potential for Broader Industry Leadership	<ul style="list-style-type: none"> Few lead firms and they have limited interest in small-holders There is potential for new entrants into the horticulture industry and it will be important of continual market scanning to identify high potential new entrants.

NON TIMBER FOREST PRODUCTS

Criteria	Description
Growth Potential -- Ability to Turn Competitive Advantage into Competitiveness	
Market Demand and Growth Potential	<ul style="list-style-type: none"> • There is evidence that if quality and quantity requirements of local, national, regional, and/international markets are met there will be strong effective demand for honey and other NTF products. • Lead firms have ready market for products internationally but do not have enough production to meet demand • The Zambian NTFP industry can compete against regional and international competitors
Match between local capacities and nature of competitive advantage	<ul style="list-style-type: none"> • There is a geographic advantage, especially in North Western and Western province. Two lead firms are actively involved in honey production solely from the MSE sector. Local capacities match characteristics of demand that define competitive advantage (e.g., efficiency, differentiation, and/or affect on demand) in short, medium, and/or long-term
Potential For Achieving Competitiveness	<ul style="list-style-type: none"> • There is substantial potential for technologies and management systems to increase production and services delivery efficiency given strong industry leadership • There is also substantial potential for technologies, management systems, and marketing efforts to effectively differentiate products, but leadership from exporters will be key to driving industry growth and providing opportunities to smallholders • The main food market for honey has substantial potential for growth • There is significant potential for growth in the high value cosmetic and pharmaceutical industries
Opportunities For Linkages	<ul style="list-style-type: none"> • There is some potential for forward/backward linkages between large and small enterprise, but it is limited due to limited number of lead firms in the industry. • Both lead export firms are looking for more efficient ways to engage MSEs as a source of supply. • If/when new exporter entrants emerge there will be substantial potential for third party services and products that will support growth in the NTFP industry (i.e., production inputs, finance, etc.)
Government or Donor Interest / Existing Support Programs	<ul style="list-style-type: none"> • There is government interest in honey sub sector, but the informal nature of the industry at present makes it unclear how the government can improve the situation. • A number of donor organizations (eg SNV, Keepers Zambia, ASP) are working in the sector and there is solid potential for synergy and complementary activities.
Ability to Achieve Scale of Results/Impact	
Number of MSEs	<ul style="list-style-type: none"> • Approximately 8,000 producers are engaged in the formal export market. • There is potential for increases in the number of MSEs that can participate and benefit if yields can increase
Upgrading Potential	<ul style="list-style-type: none"> • It is critical for the industry for MSEs to upgrade their products and production processes – quality parameters will have to significantly improve to ensure the ongoing viability of engaging MSEs in honey production given recent price decline • There is potential for MSEs to deliver higher value added functions along the value chain in terms of some processing and improving the quality of production • There is potential for MSEs to move to a higher value added channel within a subsector – in particular MSEs would benefit if lead firms engaged in the higher value cosmetic and pharmaceutical markets

Criteria	Description
Growth Potential -- Ability to Turn Competitive Advantage into Competitiveness	
Potential for Broader and Deeper Increases in Income and Wealth Creation	<ul style="list-style-type: none"> • MSEs will obtain broader and deeper benefits if they can increase yields and quality. Given increases in MSE yields and quality the lead firms and the industry will also increase their revenues • Production is the initial limiting factor to increasing returns on the MSE assets (i.e., land, animals, location, and capital (i.e., financial, labor, social, and human)).
Potential For Employment Generation	<ul style="list-style-type: none"> • Potential for enterprises (large and small) to create new employment opportunities is limited, but some employment should be generated if yields and quality can improve.
Industry Leadership	
Nature of Industry Leadership with MSEs	<ul style="list-style-type: none"> • There is clear willingness of at least one of the lead firms to invest in industry growth including MSE producers (i.e., embedded services, financial services, etc.) • Forest Fruits would like to increase the transparency of its relationships with MSEs (i.e., clarity of responsibilities through contracts/written terms and consistency of enforcement, etc.), but is mindful of the cost/benefit given the informal nature of MSE producers • Forest Fruits is committed and willingness to address social constraints (i.e., HIV, gender bias, cash-flow needs, etc.) to MSE participation and benefit in the long-term
Nature of Industry Leadership for Broader Industry Growth	<ul style="list-style-type: none"> • Forest Fruits has demonstrated it interesting and commitment to its industry and Zambia, but there are few other firms that have shown such a commitment. • Given the relatively small industry there is limited opportunities to foster efficient third party services – with the exception of piloting a distributor model for Forest Fruits • Outside the two lead firms there are a large number of smaller enterprises throughout Zambia, but cooperation between players in the industry is limited. Industry growth is more dependent on individual channels achieving some growth first, before broader industry cooperation would make sense
Potential for Broader Industry Leadership	<ul style="list-style-type: none"> • Given success in increasing yields and diversifying market channels into cosmetics, there will be new entrants, however this will take time • For products other than honey, there is not identifiable industry leadership that can leverage broader growth, but PROFIT will continually scan the market for emerging NTFPs

ANNEX 3: SCOPE OF WORK FOR LIVESTOCK VALUE CHAIN ANALYSIS

Background:

The livestock industry competes based on a combination of efficiency and differentiation. Delivering consistently high quality products that range from low margin high volume raw meat and dairy products to high-value processed products is critical to the overall industry's competitive position. The industry must form efficient channels for high volume products that maintain a basic level of quality, but it is also important for the industry to develop specialized channels for differentiated products like certain cheeses, processed meats, and high-value by-products (leather). In this context, it is critical for firms and the industry to achieve effective and efficient linkages from inputs to production, transport, processing and retail distribution channels for a full range of products that are emerging. At present, the livestock industry is relatively disconnected with weak and ineffective linkages that are plaguing the industry's ability to respond to critical threats such as low productivity and poor animal health. Further, the disconnectedness in the industry has limited information flows and fostered a general lack of transparency that distorts commercial incentives, limits the adoption of better on-farm practices, and minimizes the demand for critical support products (e.g., veterinary services, financial products and services, and feed services and products).

While the potential is substantial, the breadth and depth of the issues in all the channels are substantial and there are limitations on where and how PROFIT can intervene. As a result, PROFIT will target the highest returning interventions. For example, where there is already substantial donor involvement as there is in dairy, PROFIT will play a minimal role. While PROFIT will closely coordinate with these efforts as there will be substantial overlap (especially in regard to support services and some output relationships), its main focus will be on beef, poultry, and high value by-products within the livestock industry, particularly leather.

Looking just at these channels within the livestock industry there remains substantial issues related to basic industry efficiency as well as critical quality issues that are limiting any ability to differentiate Zambian products. Specifically, low yields, poor animal health, and high transaction costs are key constraints to moving the industry forward. To address these constraints and thus increase efficiency and improve quality, PROFIT will target the ineffectiveness of and inefficiency in the input and output relationships. PROFIT will utilize direct project interventions (via staff time) as well as targeted grants to facilitate more robust, commercially grounded, and responsive relationships on both the input and output sides of production.

In order to properly target PROFIT resources whether human or financial, additional analysis will be needed. PROFIT will engage an international expert in value chain analysis to identify key constraints and opportunities along the value chain and provide recommendations on where

Objectives:

- Improve PROFIT Staff value chain analysis and market development intervention methodologies
- Identify the structure of the industry including the range of channels through which livestock products are sold domestically and internationally
- Identify the different market segments to which each channel is catering
- Identify the links or lack of links to veterinary services, feed, leather,
- Determine the current and potential contribution from and benefit to small holder livestock farmers

Tasks:

- Deliver a three day introductory staff training on market development intervention and value chain analysis methodologies
- Perform a desk study of the different livestock industry assessments, including Zambia specific studies and provide a summary of the main lessons learned from industry and project analyses;
- Perform a value chain analysis of the livestock sector based on the following framework:

PROFIT Value Chain Analysis Framework

1. Value Chain Characteristics

1.1 Structure of Value Chain

- What is the sequence of the value-adding activities/functions in the livestock value chain?
 - o research/extension
 - o input supply
 - o growing
 - o collecting/bulking
 - o local trading
 - o local processing
 - o export
 - o import
 - o international trading
 - o international processing
 - o merchandising
 - o retailing
-
- The diagram shows a list of value chain activities on the left, grouped by two large curly braces on the right. The top brace encompasses the activities from 'research/extension' to 'import', and is linked to a box labeled 'National Value Chain Map'. The bottom brace encompasses the activities from 'international trading' to 'retailing', and is linked to a box labeled 'International Value Chain'.
- Conduct Mapping of Value Chain
 - o national map [w/ price/costing data if available]
 - o livestock processing functions
 - Describe the relationships and the key participants that exist within the value chain?
 - What type of value chain is it (i.e., buyer-driven or producer-driven)?

1.2 Geographic Spread

- What is the geographic spread of the Zambian livestock value chain? (assumptions)
 - o local production is concentrated in Southern, Eastern and Western Provinces for local consumption or processed for higher-end domestic and export markets
 - o major processing takes place primarily in larger centralized plants in Lusaka, but regional processing is increasing
 - o majority of consumption is domestic with some regional exports
 - o international markets are minimal, but potential is there especially for leather

1.3 Profits and Barriers in the Value Chain (Rents)

- Where are there barriers to growth and sustained competitiveness in the value chain?
- Describe the types of rent in the value chain (e.g. economic, technology, human resources, organizational, marketing, relational, resource, policy, infrastructure, and/or financial)
- Which activities in the value chain are subject to growing competition?
- What are the trends in the value chain for those activities?
- Which activities sustain margins in the value chain?

1.4 Control and Governance/Inter-firm Linkages

- What types of value chain governance exist in the Zambian livestock value chain (i.e., market, balanced network, directed network, hierarchy)?
- Who sets the rules? Who monitors the rules? Who helps others to comply to with the rules?
- What are the barriers to greater cooperation between and among firms and MSEs? What are potential opportunities to increase effective cooperation?

2. Development of Upgrading Strategies

2.1 Identification of Key Constraints and Critical Success Factors (Solutions)

- Conduct benchmarking of the value chain where appropriate

PROFIT Value Chain Analysis Framework

- What are the key constraints and the relevant “critical success factors” for the value chain based on the following criteria: (i) potential for expansion and growth of the value chain, and (ii) potential for increased level of smallholder participation/benefit in the value chain
- What is the effectiveness of key non-financial support services (sector and non-sector specific) and products along the chain (e.g. vet, AI, feed, and ICT related services)?
- To what extent does access to capital constrain innovation and technology adoption? What set of products and institutional options can best respond to these financial constraints to technology adoption and innovation?
- What opportunities exist to address these constraints (e.g. use of DCA guarantees, other mechanism to reduce initial risks)?

2.2 Prioritizing Critical Success Factors/Solutions

- Based on the proposed solutions to identified key constraints, rank them and identify priority critical success factors/solutions

2.3 Initial assessment of targeted solution(s)

- What is the commercial feasibility of these solutions? How would costs in the provision of the solution be recovered?
- Who are possible providers of the solution? What constraints would/do they face in providing the solution?
- Who are the users of the solution? What constraints would/do they face in using the solution?

2.4 Upgrading Opportunities in the Value Chain

- What kind of upgrading is necessary to facilitate a more competitive livestock value chain in Zambia in Southern and Western provinces [could be presented by the type of upgrading necessary—i.e., production, processing, mix of activities, or new channels]
- What programming investments can facilitate farmers capturing increased value added (broad based economic growth)

3. Public and Private Sector Investments in the Livestock Value Chain

3.1 Current Public/Private Strategies

- What are the current public sector (donors, GRZ, etc.) strategies and approaches?
- What are the current private sector strategies and approaches?

3.2 Current and Planned Investments in the Value Chain

- What are their current plans for new investments?
 - Zambeef, Pama, Kembe, others
 - USAID: MATEP Project, LoL
 - World Bank, EU, GRZ
- Do current public sector investments adequately address the constraints on a sustainable and commercial basis?
- What are their perceptions about gaps in assistance?

3.3 Policy/Regulatory Constraints/Support

- What government support and regulation is needed in the value chain?
- Is there any current government support and regulation is hindering the value chain

Deliverables:

- Staff training for 20 to 25 staff
- Presentation of findings to stakeholders
- Generalized findings report
- PROFIT recommendations report

ANNEX 4: SCOPE OF WORK FOR INVENTORY AND ANALYSIS OF COMMUNITY BASED TOURISM IN ZAMBIA

Background

The tourism industry in Zambia is based primarily on natural and cultural assets. The assets are defined within the context of wildlife, natural sites (falls, landscapes, etc.), local festivals/events, and historical sites. With few exceptions (i.e., Victoria Falls) these assets cannot handle mass tourism without compromising the asset. In addition, the current structure of tourism in Zambia is based on relatively closed channels/products defined by relatively small tour and lodge operators, or ownership/control of an asset (for example in the consumptive tourism industry for safari hunting). There is some networking in terms of tour operators selling multiple channels, but indications are that this is minimal. As a result, the tourism industry in Zambia, particularly as it relates to poor community involvement, is best suited to taking an upgrading strategy based on differentiation. Certainly some efficiencies can and must be achieved to improve the competitive position of Zambian tourism, but the key will be if Zambia can differentiate itself compared to its principle competitors.

Differentiation can be defined by the mix of tourist products available, the quality of the assets, the effective management of the assets, and the overall quality of service delivery to the tourists. PROFIT will focus its efforts in tourism on targeting high potential models for integrating poor communities into the tourism industry on a commercial basis, broadening and deepening the benefits from tourism activities accruing to these communities, and replicating appropriate models. PROFIT will consider all levels of community involvement, from direct service (e.g. camp site management) and direct support service (e.g. cultural villages, dance troupes) to back-of-house services (e.g. fresh vegetable provision to a cluster of lodges)

To achieve these objectives PROFIT will first perform an industry analysis focusing on community based tourist (CBT) activities already operating in the country. As the tourism industry is highly disconnected there is no inventory or adequate understanding of the full range of activities currently taking place in Zambia. While there is some understanding of the type and location of most of the tourist assets available, there is limited knowledge about the extent to which local communities are benefiting, the constraints to increased contribution and benefits, the commercial sustainability of the programs currently operating, and potential opportunities based on scaling up already proven models.

Objectives

- Identify the structure of the industry including the range of channels through which tourists visit Zambia
- Identify the different market segments to which each channel is catering
- Identify the links or lack of links to crafts, gems stones, and jewelry industries
- Determine the current and potential participation of communities surrounding tourist assets
- Provide lessons learned from regional tourist industries
- Identify potential untapped markets (i.e., add-ons, regional tourists, domestic tourists, etc.)

Tasks

The tasks will include a desk study, inventory, and assessment of CBT efforts. The team will utilize value chain and competitiveness principles to guide their analysis.

- Perform a desk study of the different tourism industry assessments, including Zambia specific studies and provide a summary of the main lessons learned from industry and project analyses;
- Perform a nation-wide inventory of the community based tourism efforts including a listing of the tourist assets on which the efforts are based.
- Identify the high potential models based on commercial viability, and consistency of approach compared to the market segment, tourist assets, and local community resources/skills.

Deliverables:

1. Presentation that summarizes the findings of the assessment focusing on:
 - Summary of key lessons learned from literature
 - An overview of the current and potential tourist assets.
 - Identification of successful commercially grounded efforts to incorporate local communities in tourist-based revenue streams
2. Written report that provides a generalized summary of the analysis that would be suitable for broader distribution
3. Written report that provides details of the analysis and provides a prioritized list of high potential models that could be scaled up or improved with additional assistance from PROFIT