

Business Plan

Arr Hman Thit Producer Organisation

Kywe Kue Village, Myeik Township

Producer Organisation offering farm machinery services

November 2020

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1. Introduction and background to the Producer Organisation

Kywe Kue village is located in Sandar Wut village tract, alongside the Yangon-Myeik Highway road, and about 9 miles away from Myeik Township. The major livelihood in the village is seasonal crop farming and paddy production for seeds and grain. Villagers also depend on trade, fishery and off-farm employment in Myeik Township.

The topography of the land surrounding the village makes it ideal for commercial paddy production and trading. However, households that depend on paddy production as their main source of income are confronted with numerous challenges that hinder their productivity, these include, lack of technical knowledge, poor husbandry practices and land preparation, lack of quality inputs, farm labor shortages and poor access to affordable finance. As a result, most farmers engage in subsistence paddy production to feed their households with surpluses sold to nearby millers and brokers. Low profitability from their farming operations also result in farmers leaving their fields idle while seeking off-farm employment in the neighboring township and even Thailand.

In October 2018, with the support of World Vision through the TRRILD project, our producer group was formed to help alleviate some of the common challenges we faced as farmers. With continued technical support, our producer group was constituted in June 2019 under the new name ‘Arr Man Thit’ producer group (which means New Strength). One of our first collective activity was a bulk purchase of over MMK4 million worth of quality fertiliser among our members from a reputable supplier in Myeik. Immediately, our members benefited from a lower per unit transportation cost and discount from the supplier. Also during that year, we contracted 12 of our members to cultivate 16 acres of certified high-quality Shwe Bo Paw San seeds with technical support by World Vision and the Department of agriculture, through this activity, majority of our members and villagers received production training. A portion of the yield was sold to farmers as seed and the remainder was sold as grain to a commercial miller. These initial activities motivated our members and encouraged other villagers to join our producer group. Realising the need to improve land preparation to increase productivity, we decided as a group to invest in land preparation machinery and equipment. Due to our hard work, commitment, unity and functionality, our PG was prioritised as a candidate Producer Organisation by the TRRILD project in January 2020. Since then, we have hosted many exposure visits to share our experience with other TRRILD producer groups.

2. Concept note

Concept Note proposals of Arr Hman Thit Producer Organisation (Kywe Kue village)

	This column to be filled out by the directors.		
Name of producer group:	Arr Hman Thit Producer Organisation		
Address of the producer group Village/Township:	Sanda Wut Village Tract, Kywel Kue Village, Myeik Township.		
Contact name(s) for this application: <i>(Director(s) of the producer group)</i>	U Myo Myint (Leader) U Soe Aung (Secretary)		
Number of directors	6 persons		
Contact numbers: <i>(Chairman, secretary)</i>	U Myo Myint 09 691 812 121 (Leader) U Soe Aung 09 422 213 330 (Secretary)		
E-mail address of a contact person: <i>(Where available)</i>	Nil		
Number of registered members	28 persons	Males: 21	Females: 7

Proposal description	<p>This proposal is designed to address land preparation challenges and labor shortage confronting our members and to capitalize on opportunities to provide land preparation services to other farmers in the village and surrounding villages. With improved access to land preparation equipment, our farmers can increase their productivity and income from their farming operations. The associated equipment's will also provide much need transportation services to our farmers during harvest time and reduce the per unit transportation cost of purchasing inputs in bulk. This proposal is for the purchase of a tractor and implements.</p> <p>The total cost of the investment is MMK 35million if purchased in installments or MMk 30 million if purchased in cash. Based on discussion with our members, grant financier (WVM) and project support, we the directors have decided to purchase the asset in cash.</p>		
Initial process	<ul style="list-style-type: none"> • To develop the enterprise plan • To calculate the profitability of the enterprise • Determine investment required and method of financing the enterprise plan • To introduce Institutional arrangements to support the enterprise plan • To submit the proposals to World Vision and Visionfund • Purchase tractor and associated equipment • To utilize the purchased tractor as planned, develop a plan to maintain, find customers and increase income 		
What resources are needed to achieve the objectives? Management and maintenance Important partnership stakeholders	<ul style="list-style-type: none"> • Capital Investment • Tractor and related equipments (land preparation tools and back carrier) • Paddy fields (inside and outside of the PO) • Skilled driver • Staff to monitor income and expenses • Storage area <p>Chairperson and other directors of the Producer Group's Board of Directors.</p> <p>World Vision Myanmar, Visionfund Myanmar, OK Rice Miller, Purchasers, Department of Agriculture, Good Brothers Company.Ltd.</p>		
How will the producer group finance this proposal?	From members (%)	Loan capital (%)	Grants contribution (%)
	34% 10,000,000 MMK	33 % 10,000,000 MMK	33% 10,000,000 MMK
Use of funds	<p>The total investment required to implement this plan is MMK 30,000,000. This investment will cover the cash purchase of a tractor and the related equipment. This figure does not reflect funds for interest payments on the loan. If this proposal is approved, the group is expecting to commence expansion of the farm machinery service business in February – March 2021.</p>		
Proposed share capital (For more details, see Institutional arrangements in Section 3)	<p>Total investment: 30,000,000 MMK Share issue price: 10,000 MMK Debt capital: 10,000,000 (33%) Grant capital: 11,200,000 (37%) Member contribution: 8,800,000 (30%)</p> <p><u>Distribution of benefits</u> Discount system, members with:</p> <ul style="list-style-type: none"> • Less than 40 shares no discount • 40- 60 shares, lowest discount • 70-90 shares, intermediate discount • 100 or more shares, highest discount <p>Dividends are also distributed to members based on their shareholding.</p>		

3. Proposed institutional arrangements

Proposed business: Provision of farm machinery and equipment hire services

Value proposition: Improving members' profitability by providing timely land preparation and transportation services at an affordable price

Investment requirement: Movable asset (tractor, trailer, plough and disc harrow)

Source(s) of capital: Equity capital contributed by members (including any grants made to members by the Project) and debt capital.

Capital instrument: Tradable equity shares with price discounts linked to the number of shares purchased. Larger investors who buy more shares will benefit from larger price discounts on machinery and equipment services hired from the PO. If the BoD agrees to sell shares to non-member investors, these shares will be identical to those purchased by members but they will not entitle non-members to attend or cast votes at general meetings called by the PO.

Assumptions/Conditions:

- Members of the PO are willing and able to invest the equity capital needed to implement a viable business plan.
- POs will be mentored to administer the share system and its associated service discounts.
- Price discounts will be attached to the retail value of any machinery service transaction with a shareholder, where the retail value is based on the fees that a non-shareholding customer would have to pay.
- Price discounts are determined by the level of investment, not the volume or frequency of actual transactions. The expectation is that larger patrons will purchase more shares as they stand to benefit more from the larger price discounts conferred by larger shareholdings.
- The total number of shares issued is contingent on the level of equity capital required to finance the assets needed to implement a viable business plan. The BoD will decide on the total number and initial price of shares issued, and will establish the price discounts that shareholders qualify for depending on the number of shares they own.
- Equity shares and their associated price discounts can be transacted between members and with new members, but the price discounts cannot be leased or lent to other members or non-members.
- At the end of the financial year, at the BoD's discretion, dividends will be distributed based on shareholding.

An illustrative example

To illustrate the proposed share system, consider an investment of MK30 million in a tractor, trailer and associated implements. If VFM agrees to lend MK10 million (33%) to co-finance the asset, the members will have to match this with equity worth MK20 million (67%). This implies a debt to equity ratio of less than 0.5, which is well within usual lending norms but appropriate for a new enterprise managed by a client that has no track record.

This example builds on the informal rules created by Kywe Kue's directors to finance an earlier investment in a combine harvester. To raise equity capital worth MK20 million, the PO issues 2,000 shares at a purchase price of MK10,000 per share. The project funds 40 shares per member to ensure that even the poorest of the PO's 28 registered members has a beneficial interest in its assets. This equates to a total of $(40 \times 28) = 1120$ shares that cost the project MK11.2 million in grant funding. That leaves the PO with 880 shares to sell in order to raise the remaining MK8.8 million of equity capital. On average, each of the 28 members would have to buy an additional 30-40 shares to meet the remaining equity requirement.

To encourage members to buy these shares, the BoD decides that ownership of at least 100 shares will qualify the shareholder for a substantial discount, say 6%, on the amount that a non-shareholder would be charged for machinery services. Similarly, the BoD sets an intermediate discount of 5% for members who own at least 70 shares, and a modest discount of 2% for shareholders who own at least 40 shares. This means that all of the PO's members will qualify for the modest discount as the project's grant provides each member with 40 shares. Non-members, however, will have to buy at least forty shares to qualify for the base discount. As a further incentive to buy shares, any profits distributed by the BoD at the end of the PO's financial year, will be returned to shareholders as a dividend paid equally on each and every share. Larger shareholders therefore stand to benefit more from price discounts and dividend payments. Figure 1 over-page presents a visual summary of this example.

Continuing the example, if a non-shareholder is charged MK10,000/hr for ploughing services, a shareholder with 40 shares would pay MK9,800/hr, a shareholder with 70 shares would pay MK9,500/hr, and a shareholder with 100 shares would pay MK9,400/hr. Although the discount rate does not increase by much for a shareholder with 100 shares compared to a shareholder with 70 shares, even a small increase will be attractive to larger farmers who make greater use of the services. **The prices and discounts used in this example are not recommendations. In reality the BoD must set prices for services and the discount rates.** The price of services may be changed by the BoD to ensure that payments made by users cover maintenance and operational costs, but the discount rates set by the BoD when the shares are issued should not be changed as this will disadvantage some members relative to others.

To get their price discount from the PO, shareholders must present a personalised card that is colour coded to show what level of discount they are entitled to receive. For example, owners of 100 or more shares get a gold card, owners of 70-90 shares get a silver card, and all other shareholders get a bronze card. Members and new members can buy, but not hire or borrow, these cards from other members who are willing to sell their equity shares. For example, a member who is expanding his or her farming operation and who owns only 40 shares, could buy more shares from other shareholders who may be cutting back on production. The buyer and seller would then register the share transaction with the PO, the share register and individual share certificate would be updated, and the two parties would be issued with new personalised cards reflecting their amended shareholding. Clearly, there would be a fee attached to these transactions to cover the costs of recording transactions and issuing new cards. See example illustrated in Figure 1.

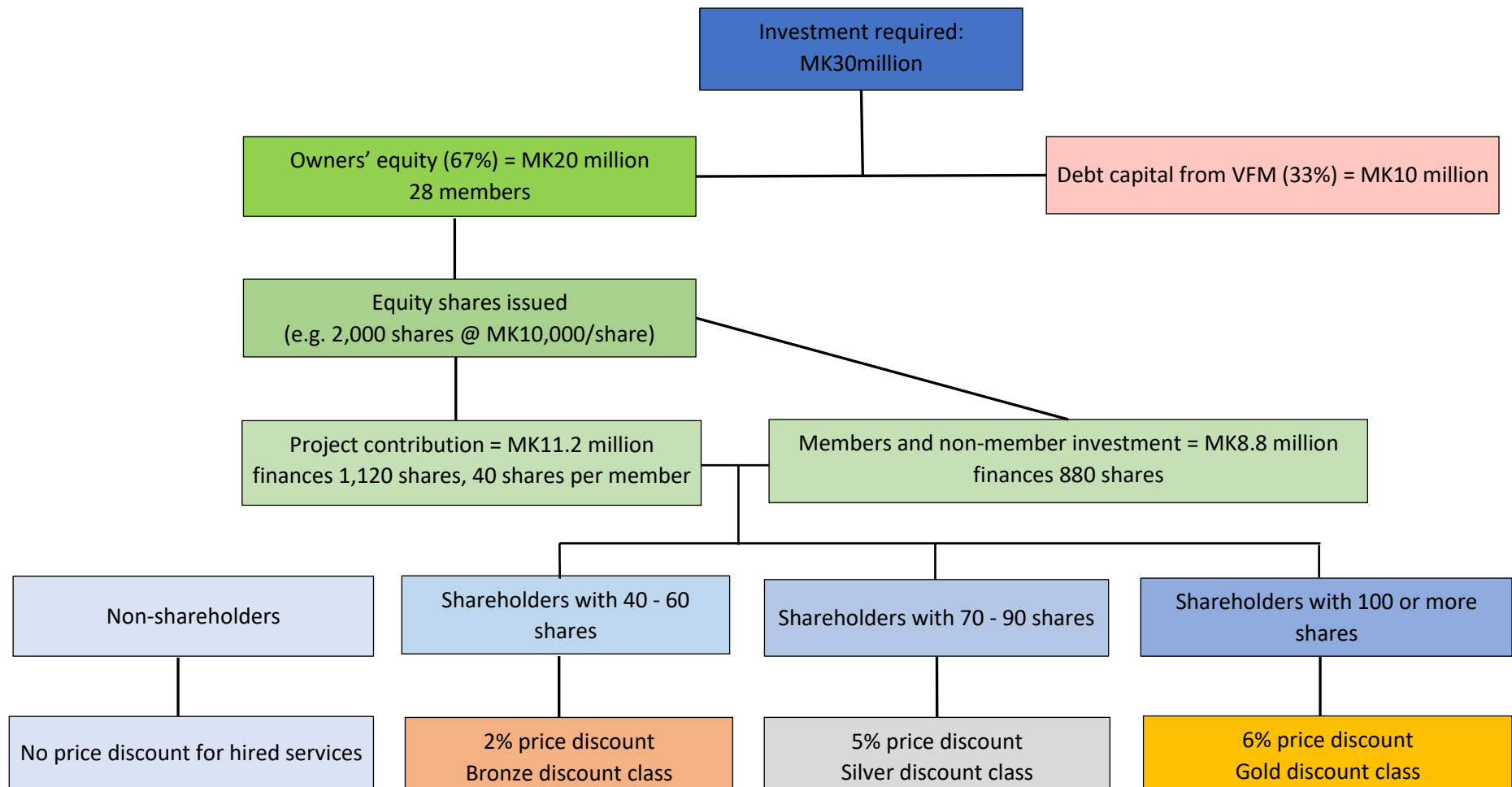


Figure 1: Illustrative example of share system with price discounts for machinery services

4. Business canvas for Arr Hman Thit Producer Organisation

Arr Hman Thit Producer Organisation's business model canvas (Kywe Kue Village)		Designed by: Arr Hman Thit's BoD		Date:	Version:
Key Partners	Key Activities	Value Propositions	Customer Relationships	Customer Segments	
<ul style="list-style-type: none"> PO members (equity, customers) World Vision (technical advice) Vision Fund (Loan capital) Good Brothers Company.Ltd. Farmers nearby villages Land, mining contractors Department of Agriculture OK Miller Thanintharyi Light Miller Real Estate projects Lincoln University Farm machinery accessories shops in Myeik. Local mechanic workshop. 	<ul style="list-style-type: none"> Paddy carrying (Load transportation service) Ploughing in summer and rainy season Land Preparation (farm) Land Preparation (real estate) Service provide priority to Share holders and PO members. Regular PO meeting for business management Networking for market opportunities 	<ul style="list-style-type: none"> Reduced dependence on manual labor Timely land preparation and transportation services at affordable prices Improved farm productivity Reduced risk of suddern raining damage to paddy sheaves. Improved soil quailty (reduced acidity, increased organic matter). Reduce the soilborn pests and disease because of summer ploughing. Improved land leveling 	<ul style="list-style-type: none"> Value to all customers. Price discounts prioritize to PG members and based on the size of share holding. Booking order system. 	<ul style="list-style-type: none"> Shareholders Non-shareholders Land, mining contractors Real estate projects 	
	Key Resources <ul style="list-style-type: none"> Capital Management committee (BOD) Tractor Related accessories and equiptment. Skilled drivers. Skilled technical supervisod Book keeper and accountant Local Market Facilitator Local mechanic workshop. 		Channels <ul style="list-style-type: none"> Word of mouth Telecommunication network Viber group Network with other same business actors Advertizing to land and mining contractors and mechanic workshops Field visit Advertising in groups meetings and S4T meetings. 		

Cost Structure			Revenue Streams
Operations cost: <ul style="list-style-type: none"> • Material costs • Maintainance costs • Labor • Miscellaneous costs 	Admin cost <ul style="list-style-type: none"> • Driver wages = 350000 MMK per month • Helper wages = 150000 MMK per month 	Discount: Larger investors get higher discounts on the price of machinery and transport services. <ul style="list-style-type: none"> • Holding 100 or more shares • Holding 70 to 90 shares • Holding 40 to 60 shares 	Estimate <ul style="list-style-type: none"> • Paddy carrying (Load transportation service) Based on update market price • Summer Ploughing 15000 MMK - 18000 MMK per hour per acre • Rainy Ploughing 15000 MMK - 18000 MMK per hour per acre • Land Preparation (farm) 15000 MMK - 18000 MMK per hour per acre • Land Preparation (real estate) Based on update market price • Land, mining contractors Based on update market price

5. Financial projections

1. Sale forecast Plans, 2. Profit and Loss Plans and 3. Cashflow Plans for farm machinery services offering business.



Cahs flow Myanmar
(Myeik) - Tractor (Ky