

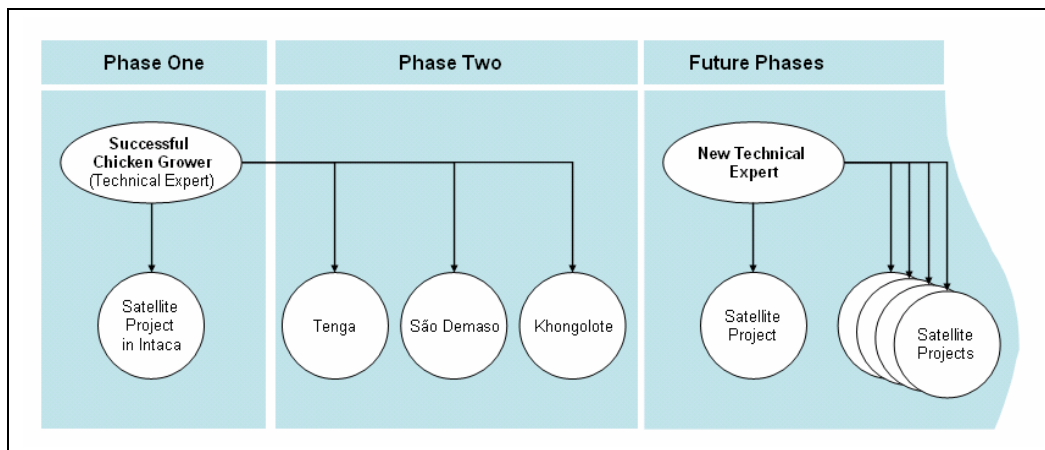
# A Proposal for a Chicken Farm Out-Grower Model Pilot Project Christian Micro-Enterprise Development (CMED) in Mozambique

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## 1. VISION AND OBJECTIVES

The vision of the chicken farm out-grower model is to leverage the expertise of successful entrepreneurs to create satellite (or “out-grower”) enterprises in communities of interest to OMS International / Every Community for Christ (ECC) church planting and discipleship efforts (see Figure 1).<sup>1</sup>

This out-grower model will be applied using an existing chicken farm to establish satellite chicken farming enterprises in selected pilot communities (see Appendix 1 for a brief overview of a chicken farming operation).



**Figure 1: Visualization of the Out-Grower Model**

A major limitation of the established micro-enterprise industry in Mozambique is that it is difficult to impossible to secure loans for the start-up of a micro-enterprise. All established lenders are focused on extending credit to existing businesses only. The out-grower model resolves this limitation by leveraging the experience of a currently-operating entrepreneur to secure loans for the start-up of new businesses.

<sup>1</sup> The authors would like to express gratitude to World Relief for the development of the out-grower model based on their experience and lessons learned in micro-enterprise development projects in Mozambique. The Chicken Farm Out-Grower Model proposed here is a modified version of the World Relief model.

The primary (direct and measurable) objectives of the out-grower model are:

- Creating employment opportunities in impoverished communities;
- Providing practical business experience to interested people;
- Increasing the availability of credit for micro-enterprise operators;
- Being self-sustaining (i.e., not requiring continuing personnel or financial resources from OMS International beyond an initial start-up period).

Secondary (indirect) impacts include:

- Laying the groundwork for the planting and/or expansion of churches;
- Improving the financial capacity of church plants by improving the income of its members; and,
- Improving nutrition and health in communities where satellite enterprises are established.

In order to achieve sustainability, OMS missionaries will have no involvement with the development of chicken farm projects beyond facilitating the implementation of the pilot, equipping Mozambicans to be able to replicate the model, and encouragement along the process.

## **2. IMPLEMENTING THE VISION**

### **a. Identify Technical Experts**

The chicken farmer out-grower model revolves around the concept of identifying key people to act as technical consultants and mentors to new business operators. These are people who are successfully operating an existing enterprise and who have demonstrated technical and business expertise in their enterprise.

These technical experts need not be aligned with the church, but should have values consistent with those of OMS International and the Palavra Viva national leadership. Their participation in this project can be an opportunity to provide Christian witness to them through their contact with the local Palavra Viva church.

The identification and use of technical experts in the out-grower model is similar in concept to finding a “person of peace” at the outset of establishing a church plant.

To ensure sustainability, the technical experts must be Mozambican nationals who have a significant knowledge and understanding of local customs and business practices, and who are well-respected and firmly-planted in their community.

For this particular project, a family of chicken farmers (Miguel and Christina) have been identified as potential technical experts. They have expressed interest in working with OMS

International. However, this specific out-grower proposal has not yet been shared with them and, as such, they have not yet agreed to participate in the pilot project.

The use of technical experts will be successful only if it is of benefit to every party involved.

#### *Benefits for Workers at Satellite Chicken Enterprises*

Satellite chicken farmers are the primary target of interest in the design of the program. They will benefit through the creation of sustainable employment opportunities coupled with training and mentoring that will permit them to successfully operate their own small business.

The presence of the technical experts will also facilitate the receipt of credit, which would not typically be available to a start-up enterprise.

There is some good rationale behind the established micro-credit industry's refusal to lend to start-up enterprises: not every person has the capacity required to be a successful entrepreneur. Similarly, not every person is interested in being an entrepreneur. A major benefit of the out-grower model is that it allows people to work in partnership with one another, taking advantage of each person's relative strengths, and for the whole group to benefit from the experience of the technical expert. In this way, business opportunities can be extended to those who are lacking the capacity or interest in being a sole proprietor, but are willing to be a hard-working partner in a joint venture.

#### *Benefits for Technical Experts*

The program has been designed to benefit the technical experts in order that they are willing to invest significant effort into the success of the program and that the weight of the program rests on their shoulders in a sustainable fashion.

The technical experts will benefit by extending their business from production to selling the expertise that they have developed.

The technical experts will be remunerated by receiving a share of profit from each satellite business that they support. Profit sharing creates an incentive structure that ensures that satellite chicken growers are given the tools and knowledge necessary to succeed with their business.

Under this model, the growers and technical experts are partners in the satellite chicken farm.

#### *Benefits for OMS International*

The technical expert model has been designed such that OMS missionaries need not be experts in the creation of chicken farm businesses. The key people identified are financially motivated to share their knowledge with the nascent growers.

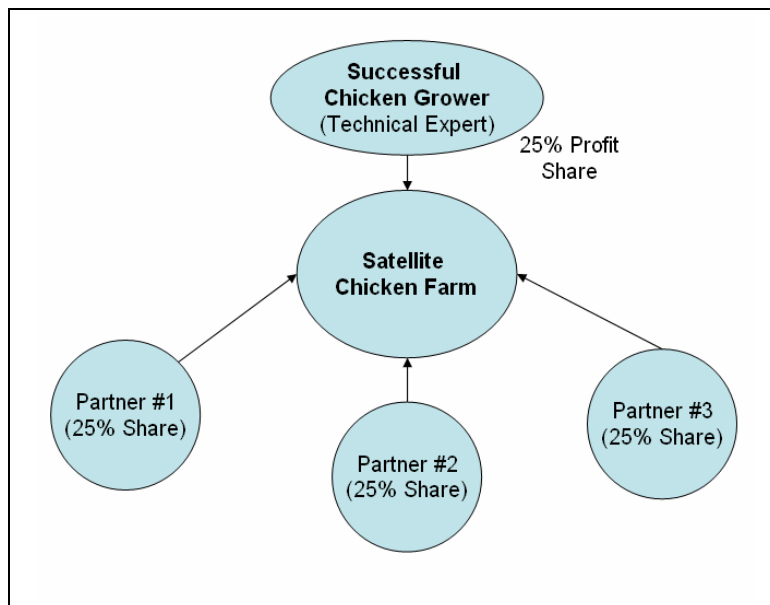
The program is designed with the objective of being independent of OMS missionaries from the outset, beyond the design of the program itself and seed capital.

### b. Structure of Satellite Chicken Enterprises

Each satellite chicken enterprise is comprised of three to five working partners and the technical expert (see Figure 2).

Micro-credit projects around the world have demonstrated that using groups of people, whether operating together in a co-operative or bound together to create “social collateral” where little physical collateral exists, makes for a successful micro-enterprise model, particularly in countries such as Mozambique, where community interaction and collectivism are strongly valued.

The number of working partners used in the model can vary by group to group, depending upon the desires of the groups that are formed. The technical experts should be provided 25% of the profits, with the remaining 75% of profits being divided amongst the number of working partners present.



**Figure 2: Structure of Satellite Chicken Enterprises**

In addition to profit sharing, each satellite chicken enterprise may choose to purchase their materials from the technical expert, if such an arrangement is deemed to be mutually beneficial.

Each satellite chicken farm should be given the resources necessary to allow it to become independent of the technical expert, subject to a minimum time commitment (see discussion under “capital loan” section). Structures that may develop a long-term dependency on the technical expert are to be discouraged.

In fact, the model becomes self-replicating if each of the partners is given enough responsibility and knowledge of the enterprise that they could become “technical experts” in their own right, and mentor third-generation chicken farmers.

Note that each satellite chicken farm is connected to the technical expert’s own business only through the consulting arrangement that has been negotiated. Each satellite chicken farm will have no direct connection to one another.

### **c. Selection Process**

Considerable attention needs to be given to the process of selecting candidates to operate a satellite chicken farm. In the absence of a process that is perceived to be both fair and transparent, selection of candidates might result in community conflicts that undermine the objectives of the chicken farm project and/or the local church.

The proposed selection process is as follows:

- a. The local church, church planters or training centre operators (depending on the local context) offer a Christian Micro-Economic Development (CMED) training program. The training should be offered by the church (using the Medical Ambassador material, if desired) and should be open to all interested members of the community (not just members of the church).
- b. During the course of the program, participants are encouraged to develop business plans based on their own existing businesses or business ideas.
- c. Near the end of the training program, the technical experts come to the training program to discuss the chicken farm out-grower model.
- d. Program participants interested in pursuing the out-grower opportunity are asked to self-select into groups of three to five members with whom they would feel comfortable entering into a business partnership.
- e. The technical experts engage each interested group through a selection process (application or interview), and select a group with whom they are willing to work.
- f. Further business mentoring and support should be made available to those groups that are not selected to participate in the chicken farm project.

Potential candidates must meet the following criteria, which have been designed to ensure a minimal level of interest, commitment and knowledge on the part of partners:

- a. Candidates must successfully complete the CMED training program offered in their community prior to the start of the chicken farm project.
- b. Candidates must be willing to invest their labour in the construction of the required chicken house if selected.
- c. In the proper context, candidates could be required to invest a percentage of start-up costs to the project. For example, they may be asked to contribute 25% - 50% of the capital cost of the chicken house. This may not be possible in certain communities, and will not be pursued in the pilot community.

The technical experts must have considerable voice in the process in order that they take responsibility for the success of the project. We propose that they be given the ultimate responsibility of selecting the successful group of partners from amongst the interested groups that have met the criteria noted above. The technical experts should not select individual members; for the enterprise to be successful, it is important that the group self-selects its own members.

Not every member of the team will be interested in operating chicken farms over the long-run. Such a long-term interest need not be a criterion for selecting groups. While some within the group may go on to replicate the model as technical experts to third-generation chicken farm out-growers, others within the group may use the acquired business experience and investment collateral to start enterprises of their own choosing.

#### d. Financial Analysis

The level of profit that the operation of chicken houses would generate for each family would be a function of two factors: the number of working partners involved in the project and the size of the chicken house operation.

Table 1 below illustrates the estimated monthly income of each partner in US dollars. By comparison, the minimum wage in Mozambique is US\$58 per month.<sup>2</sup>

These figures suggest that the minimum reasonable size for a chicken house project is 1,000 chickens per cycle, though the partners could start with as few as 500 chickens for the first few cycles in order to reduce the financial loss associated with a potential failure.

<b>Table 1: Estimated Monthly Income of Each Partner (SUS) *</b>			
<i>Number of Working Partners</i>	<i>Number of Chickens per Cycle</i>		
	<i>500</i>	<i>1,000</i>	<i>1,500</i>
<i>3</i>	\$49	\$98	\$149
<i>4</i>	\$37	\$74	\$112
<i>5</i>	\$29	\$59	\$89
<i>Technical Expert</i>	\$49	\$98	\$149

\* represents net income available to each partner for monthly living expenses, after all business expenses and interest obligations have been met.

<sup>2</sup> Updated April 1, 2006. Source: Mozambique News Agency (<http://www.poptel.org.uk/mozambique-news/newsletter/aim320.html>).

These figures should be interpreted as supplements to existing or potential income sources for the family. The amount of work required by each partner to successfully maintain the chicken farm project should not prevent them from pursuing other income-generating opportunities.

This level of income growth would positively impact the wealth and well-being of each family involved.

Note that it is likely that the technical advisor will also assume some of the downside risk as a function of being party (as intermediary or joint borrower) to the enterprise's operating loan. This downside participation (or "pain-sharing") ensures that the technical advisor has the incentive to fix an ailing enterprise rather than cutting his losses and walking away.

See Appendix 2 for more detailed financial analysis, including the assumptions used to arrive at these figures. Note that the cost and revenue data used for this analysis have been provided by the proposed technical experts and verified by World Relief.

#### **e. Loan Terms and Administration**

Two loans are required for each satellite chicken farm to begin operation: a revolving operating loan to provide the necessary liquidity to purchase feed, chickens and other supplies, and a one-time loan to build and furnish the chicken house. These two loans are treated differently, as described below.

##### *Operating Loan*

A revolving loan is required to cover the operating expenses of the chicken farming operation. The amount of the loan depends upon the size of the chicken farm and the price negotiated for inputs, but is estimated to be 45,000 to 67,500 Mtn (US\$1,667 to \$2,500) per 40-day cycle for chicken houses of 1,000 to 1,500 heads respectively.

Each chicken out-grower enterprise (consisting of technical expert and working partners) would seek a group loan from an established micro-enterprise lender at prevailing market rates.

The loan should be closed out (repaid) at the end of each 40-day cycle using revenue from the sale of chickens, and opened again at the beginning of the next cycle. This will ensure that the cost of the loan is being covered with each cycle and that any financial difficulties are known as soon as possible.

Neither OMS International nor its daughter churches will directly administer this loan. The reasons for this position are as follows:

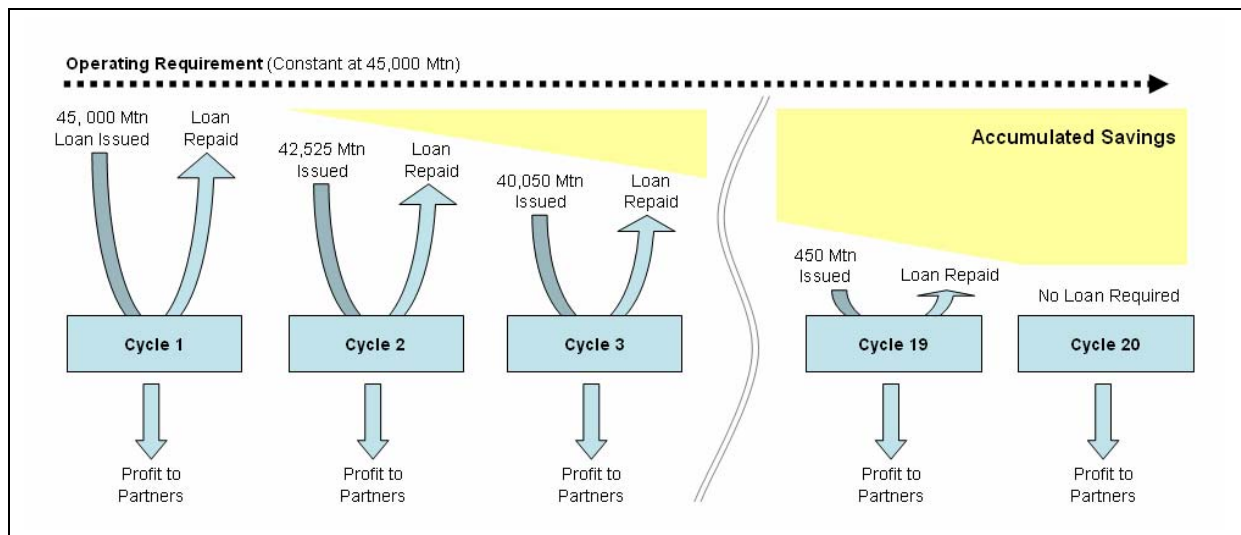
- Loans issued by OMS or its daughter churches lack a "credible threat" of collection. Borrowers may feel that they do not need to repay the loans or, upon insistence from a loan officer, may be driven away from the church.

- OMS is not legally permitted to provide interest-bearing loans in Mozambique (as an “Entity Licensed to Render Credit” by the Bank of Mozambique). Receiving such accreditation is an expensive and time-consuming process.
- The Mozambique field does not have sufficient capacity to administer such a program.

The OMS CMED team believe that using the existing micro-credit industry in Mozambique is the most sustainable means of implementing this pilot project because it represents a market-based solution that will be available to the nationals without intervention by OMS missionaries.

Options for reducing the interest rates payable have been investigated and may be pursued in subsequent projects.

Pilot project participants should be encouraged to pay down the financial obligations associated with this project as quickly as possible. One method of achieving this objective is to deduct an amount equal to 5.5% of the operating requirement at the beginning of each new loan cycle (refer to Figure 3).



**Figure 3: Third-Party Credit Paid Down Through Accumulated Savings**

Savings at this rate would allow the partners to continue the business without any third-party credit after 19 cycles (under two years), as demonstrated in Table 2. These savings have already been deducted from the estimated monthly income noted in Table 1 (above).

	<b>Cycle 1</b>	<b>Cycle 2</b>	<b>Cycle 3</b>	<b>...</b>	<b>Cycle 19</b>	<b>Cycle 20</b>
<i>Beginning of Cycle</i>						
Operating Requirement (1)	45,000	45,000	45,000		45,000	45,000
Accumulated Savings	-	2,475	4,950		44,550	45,000
Loan Requirement	45,000	42,525	40,050		450	-
<i>End of Cycle</i>						
Addition to Savings	2,475	2,475	2,475		450	-
<b>Balance</b>	<b>42,525</b>	<b>40,050</b>	<b>37,575</b>		-	-

(1) Approximate capital requirement for 1,000-head chicken farm is 45,000 Mtn (US \$1,667).

The selected micro-credit lender may seek loan repayments beginning after 30 days, at which point the chicken farm would not yet have generated any revenue because of its 40-day operating cycle. If a 40-day repayment period cannot be negotiated, an alternative method for bridging this 10-day period will have to be identified.

### *Capital Loan*

Each chicken house is a simple structure that can be built for approximately US\$400.

This amount will be provided as an interest-free loan from OMS International to the chicken farm's working partners, repayable only in the event that (1) the facility is sold within the two years of operation, or (2) that the partnership between the local growers and the technical advisor dissolves within the first 12 months or 10 cycles of operation, whichever is longer. This second provision is intended to ensure that the local growers have experienced several cycles (and lived through several problems), and reasonably know how to be independent before they sever the relationship with the technical advisor. It also ensures the technical advisor a minimum number of cycles from which to recover his invested time.

The local partners are each expected to contribute the labour required to construct the facility and, where appropriate, up to 50% of the cost of materials.

The technical expert need not be a party to this loan agreement.

OMS missionaries can provide chicken house design suggestions based upon expertise acquired by World Relief. However, the ultimate design and specifications of the chicken house should be the responsibility of the technical experts, since they have experience building and operating such houses and must bear responsibility for the success of the satellite operations.

### **3. LINKAGE TO CHURCH GROWTH IN MOZAMBIQUE**

The out-grower model builds the financial capacity of community and church members. Coupled with appropriate discipleship activities offered by the church, it is expected that the church's financial position will be strengthened through the growth of business enterprises in their communities.

The satellite chicken farms will not have any direct connection to the local or national church. This is a strategic decision intended to avoid the potential for conflicts between the businesses and churches, and based on a philosophy that church members should learn to contribute towards the financial well-being of their church with a glad and willing heart to thank God for His rich blessing, not out of necessity, requirement or duty.

As a basic principle, participation in these projects is not restricted to church members. The presence of these projects in communities is designed to provide outreach and discipleship opportunities:

- Project participants must attend a CMED training program before being selected. This training includes several Bible studies on topics of moral value relevant to business operators.
- Project participants and technical advisor should set up regular business meetings to discuss items of importance to the partnership. These meetings can include business training and discipleship components.
- Future out-grower projects could be established with a connection to ECC training centres in order to set the training centres on a path towards financial self-sustainability.
- Projects can be started in communities without existing church plants as an outreach activity, establishing a foundation for future church growth.

### **4. NEXT STEPS**

Next steps in the development of this pilot proposal include:

- Discussions with Mozambique field leadership team and OMS community to finalize the out-grower model and selection of the community for the pilot project (Intaca).
- Share proposal with Palavra Viva National Assembly (October 9)
- Engage proposed technical expert to gauge willingness and negotiate terms of participation in the pilot program
- Accompany technical experts to micro-credit lending institutions to discuss out-grower model and seek credit approval-in-principle
- Approach church leaders in pilot community to initiate project

## **5. EXTENDING THE OUT-GROWER MODEL**

The key concepts for the functioning of the out-grower model include use of a “key person” and making credit available to groups that would not otherwise be eligible for credit from existing micro-enterprise lenders. The fact that the model has been created as a series of satellite chicken growing operations is a function of the expertise of the potential technical experts identified for the pilot phase.

The model can and should be extended to other business opportunities as appropriate based upon other technical experts identified. For instance, it can be modified to fund operating expenses for ECC training centres around Mozambique.

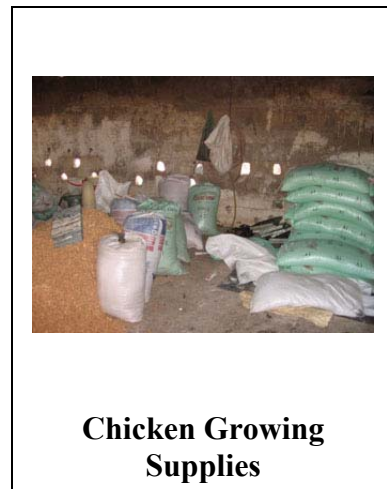
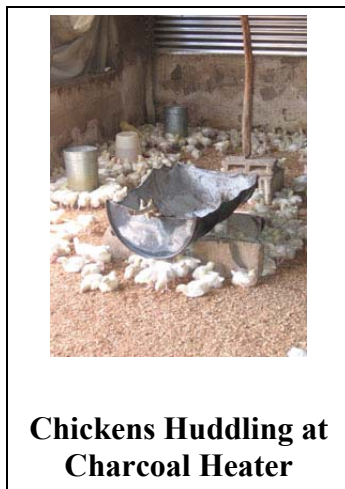
As well, micro-enterprise loans to individuals are prohibitively expensive because of the high administrative cost of monitoring and collecting micro-loans. Through the out-grower model, it may be possible to reduce these costs by lending larger amounts of money to groups of enterprises. This possibility has been explored but not implemented for the current pilot phase.

## APPENDIX 1: OPERATING A CHICKEN FARM

Miguel and Christina operate a chicken farm housing between 1,000 and 1,500 chickens per cycle. Each cycle is approximately 40 days long, consisting of 35 days of growing time (during which chickens achieve a weight of approximately 1.5 kilograms) and 5 days of cleaning. During the cleaning time, the previous cycle's inventory is sold and new inventory is purchased.

Chickens sell for 65 Mtn (meticaís da nova família) each assuming a weight of 1.5 kilograms.

The costs incurred per cycle are approximately 45 Mtn per chicken, consisting of feed, vaccines, charcoal (to provide heat) and electricity.



Note that, in order to achieve sustainability, OMS missionaries will have no involvement with the development of chicken farm projects beyond facilitating the implementation of the pilot, equipping Mozambicans to be able to replicate the model, and encouragement along the process. As such, OMS missionaries do not need to have a detailed understanding of every facet of the chicken farming business.

**APPENDIX 2: FINANCIAL ANALYSIS**

(see Excel worksheets)