Partnerships between communities and Established farmers as a business imperative for transformation in the Agricultural sector:

Community based Macadamia initiative in the Eastern Cape as a case study

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TABLE OF CONTENTS

• 1) Who We Are
• 2) Introduction
• 3) Our Approach to Transactions
• 4) Case Study: Eastern Cape Macadamia Initiative
  • 4.1) The Community-based Business Model
  • 4.2) Key Principles of the Community-based Business Model
  • 4.3) Our Track Record
• 5) Proposal From Kula
1. WHO WE ARE

KULA INVESTMENT GROUP

Kula Investment Group ("Kula") is a 100% Black owned investment group with a diversified investment portfolio with interests in Engineering consulting, Commercial properties, Agri-industries, Manufacturing and Management consulting.

We have a subsidiary consulting company, Kula Development and Business Solutions ("KDBS"), which specializes in the design of business models where communities, private sector and public sector partner. One such initiative is the community based macadamia farming business model in the Eastern Cape. This model has positioned communities to own the full value chain of the Macadamia farming business namely Nursery, Plantations, Dehusking and Drying facilities and currently working on the feasibility of a cracking factory.

KDBS has played a critically important role of modelling the community-based approach and providing ongoing management support in the Eastern Cape macadamia initiative. This model could serve as a replicable business model for producing other niche commodities in partnership with communities and emerging farmers throughout South Africa.
Kula ventured into the Macadamia industry in 2005 and set out to partner with Rural communities to farm the high-value crop due to the following reasons:

- In South Africa, farming of high-value crops is largely dominated by white commercial farmers with very minimal participation by black farmers and rural communities.
- Traditional leaders and their communities sit on large land parcels which lie fallow, as the community are unable to develop them on their own.
- Traditional leaders and their communities tend to not have sufficient technical capacity or skills required to produce high-value crops and access funding from institutions through well planned and well thought out business plans.
- Traditional leaders and their communities on their own are unable to produce bankable business plans and well researched business concepts which could be used to engage with Government for the development of their areas.
On the other hand, Private sector has access to the required skills and capacity but has limited access to public sector funds due to a lack of ‘goodwill’ in comparison to rural communities.

Furthermore, Land has also become very expensive which increases the capital outlay required by private sector players to expand their current farming operations or enter into new farming ventures.

The Community-Based business model designed by Kula thus gives merit to the approach of partnering Communities with Private sector, as it provides a Win-Win solution for all parties involved.
3. OUR APPROACH TO TRANSACTIONS

➢ Kula has positioned itself as an ideal partner to rural communities who have land parcels that are suitable for the production of high-value niche commodities and industry players who have technical capacity.

➢ We do the Feasibility Studies, Business Planning, fundraising, social facilitation and organising of communities, structuring of transactions, building and managing of plantations and ensure product access to International markets.

➢ We take the initial risk of doing the feasibility studies, business planning and fundraising for transactions and prepare transactions for both the grant and debt funding.

➢ We eliminate the risk of failure and guarantee success in each and every transaction that we are part of.

➢ We seek to create new community-owned industries, position communities to own the full value chain and build new local economies in each and every community that we partner with.
4. CASE STUDY: EAST CAPE MACADAMIA INITIATIVE

4.1 THE COMMUNITY-BASED BUSINESS MODEL

- KDBS has been working on the Community-based model for the past 12 years and has developed applicable templates for institutional arrangements in relation to the following:
  - Community trust deed;
  - Shareholders’ agreement;
  - Land use and Lease agreements.

- We also have training modules that are linked to these templates, which we use to train and capacitate community members and all other stakeholders at various levels.

- We have been able to further adapt the template business model to fit the imperatives of the Company’s Act without prejudice.

- Over the past 12 years, we have documented the challenges faced by the model along the way which has now enabled us to have our agreements anticipate ‘possible problems’ and put mechanisms in place to resolve them from the onset.

- The two community-based sites in the Eastern Cape have become centres of knowledge and skills training through peer learning. The sites are ideal to facilitate the replication of the business model to other communities throughout South Africa.
4.2 KEY PRINCIPLES OF THE COMMUNITY-BASED BUSINESS MODEL

- For all our partnerships, we support the community partners owning the full value chain of the business.
- On behalf of communities, we do fundraising by approaching Public Sector institutions and DFIs to provide funding on the basis of the feasibility studies we do and Business Plans we formulate.
- We encourage Government to invest on behalf of the community to build infrastructure on the land parcel including Trees, irrigation, fences, roads etc.
- Private sector further uses their own balance sheet to leverage debt funding for the business going forward including funding a portion of the company’s operating costs.
- The community and private sector partner to create an operating company that operates the plantations and shares the fruit income between both shareholders.
4.2 KEY PRINCIPLES OF THE COMMUNITY-BASED BUSINESS MODEL (CONT...)

➢ All the infrastructure funded by Government, plus the Land, is 100% owned by the community and gets rented by the operating company on a long term basis.

➢ Private sector helps to build infrastructure and maintain the trees on a discounted technical fee once funding has been secured.

➢ In each transaction, the community partner has a first right of refusal on skills transfer, jobs created and procurement opportunities.

➢ The business model is structured in a manner that eliminates business risk and guarantees success.

➢ Through our carefully designed business model our transactions generate sustainable jobs and community wealth.

➢ We have extensive fundraising capability and our approach is known and recognized at a National level by various Government Departments and Agencies.
4.3 OUR TRACK RECORD

Ncera Macadamia Farming (Pty) Ltd

➢ The first Community-based site is situated in Ncera (near East London), in partnership with the ImiDushane Traditional Authority and the Ncera community.

➢ Ncera was established in 2008 and has become a replicable template which was endorsed at a Macadamia summit held in East London in July 2014.

➢ Ncera Macadamia has achieved the following:
  o 180ha is already planted out of which 50ha was initially harvested in 2013 and the full 180ha harvested in 2019.
  o Ncera won accolades in 2017 for Best Governed Rural Development Project and for Good quality control management systems and adherence to International Standards.
  o The Ncera site has a 5-Star nursery geared to supply trees to markets all over the country. The nursery has retained this rating for the past 4 years.

➢ Ncera Macadamia Farming has created 154 jobs on the 180ha thus far, but at full production the site targets to create 300 sustainable jobs.
4.3 OUR TRACK RECORD (CONT.)

Amajingqi Macadamia Farming (Pty) Ltd

➢ The second Community-based Macadamia site in the Eastern Cape and the first to replicate the Ncera template is situated at Willowvale (in the Transkei), under the leadership of the Amajingqi Traditional Authority.

➢ The Amajingqi site was first planted in 2015 and has now reached a total of 267ha of the target 300ha planted. 100ha is in their 4th year since planting and have started harvesting nuts this year, 2019.

➢ Amajingqi Macadamia Farming has created 132 jobs on the 267ha planted thus far, but targets to create 300 sustainable jobs at full production the site.
5. PROPOSAL FROM KULA

➢ As custodians of the Community-based business model, we could be contracted to work with your organisation on an advisory basis or on the basis of a partnership arrangement, as we have done in the Eastern Cape Macadamia industry.

➢ The community based business model can be replicated and exported into many other high-value niche commodities e.g. Avocado, Mangos, Citrus and other deciduous & subtropical fruits etc.

➢ Based on the Transformation Objectives of the Transformation Working Group (TWG), this community-based business model creates a win-win solution in terms of large scale transformation and sustainable development in rural communities through building strong linkages with capable private sector partners.