

# Progress Report of the Green Valley Agro Project

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## Executive summary

This report describes the progress of the Green Valley Agro (GVA) agricultural project in Iringa. PI Holding Ltd (PIH) has initiated and developed this project in 2014 for which it requested and obtained a first Certificate of Incentives in 2018.

Once the GVA project was ready for financing, a special purpose entity (SPC) has been established -GVA TZ Limited- at 21<sup>st</sup> of September 2018. The SPC was needed to fulfil requirements of investors to secure project financing specifically to do the investments and start-up of operations. As being a special purpose entity also GVA TZ requested and obtained a Certificate of Incentives which has been issued by TIC in 2019.

In the years 2014-2018 several hurdles have been taken to reach financial close which enabled the start of constructing of the farm. Nowadays PIH, as the initiation and project developing company, remains as a minor shareholder of GVA TZ. PIH has no active role in GVA TZ anymore.

The land on which the initial farm of GVA TZ is located -farm 249- has been acquired by developer PIH in 2017. As by then PIH held the status of foreign company a derivative right/title deed had to be obtained via TIC Head Quarters. Finally in January 2022 the Derivate Right for farm 249 has been obtained by PIH. Nowadays PIH holds the status of a local company so PIH does not need for a DR anymore. The original title for 249 has requested by PIH to TIC.

In the meantime GVA TZ has reached stable operations and maintenance, and is already upscaling the greenhouse area. A condition for GVA TZ for additional external project financing, needed for further upscaling, is obtaining the land rights to secure long-term stability of GVA TZ to mitigate the financial risk.

# 1. Introduction

## 1.1 introduction

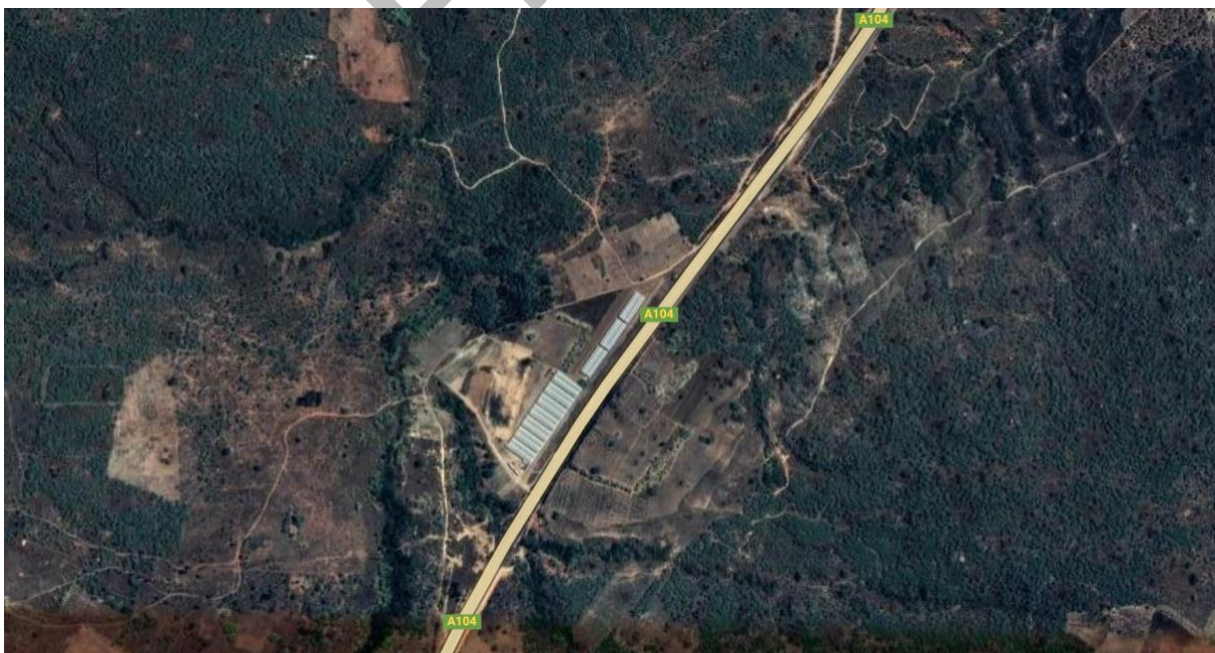
This report describes the progress of the development of the GVA agricultural project in Iringa. PI Holding Ltd (PIH) has initiated and developed this project in 2014 for which it requested and obtained a Certificate of Incentives. At the time the GVA project was in the final stages of development, a special purpose company (SPC) has been established named GVA TZ Limited (GVA TZ), at 21<sup>st</sup> of September 2018. Nowadays PIH, as the initiation and project development company, remains as a minor shareholder of GVA TZ and has no active role anymore in GVA TZ.

## 1.2 The business in brief

GVA TZ's business model is to multiply F1-hybrid vegetable seeds for the leading Dutch seed companies. The seeds are produced out of homozygote underlines provided by the Dutch clients. After harvest and processing the multiplied seeds are sold back to the clients. Production location is the Iringa area in the Southern Highlands region in Tanzania. GVA TZ has entered long-term contracts with companies for the multiplication of their seeds i.e. act as contract farmer; the client takes care of all charges for providing the inputs and taking-off the multiplied seeds. The sales price is agreed in advance.

## 1.3 The location

Now GVA TZ operates at farm 249 (approx.. 5ha of land) acquired by PIH in in 2017, close to Kichakani and Tanangozi in Iringa region, Southern Highlands of Tanzania along the highway A104, SW of Iringa town.



## 2. The first challenging years

Late 2018 the construction of the farm was prepared and in 2019 the initial greenhouse area of 10,000m<sup>2</sup> (1ha) has been installed. An extension plan was already prepared to increase to multiple hectares in the years to follow based upon to be acquired financing.

### 2.1 Start-up challenges

During 2018-2021 GVA TZ faced several serious, sequential problems which had a large impact on the planning and cash reserves, planned to be used for the extension. The time delay, additional cost and experienced challenges range from:

- Delays for clearing greenhouse containers in the harbour and unforeseen taxes plus additional legal costs to finalize the discussion with customs;
- Logistics; although before assured to be available the non-availability of off-loading cranes for 40ft containers resulting in a transport cost of a mobile crane;
- Natural resources; the non-performance of the first irrigation water borehole pushed to a second hydrological survey and additional permits;
- The requirement of the Waterboard for the construction of a rainwater catchment reservoir, acting as a collecting system for rainwater coming from the greenhouse roofs;
- A lack of qualified human resources for specialized works in- and outside the farm; horticultural management, technical. Administration and farm management;
- Delays in having an active grid connection utility for electrical power resulting in extra generator/fuel cost;
- Loss of production due to pest problems in the production;
- The Corona crisis due to which the NL management was not able to regularly teach, train and coach the horticultural staff at the farm and therefore additional pest problems and lost production;
- Due to the slow start-up and slower rate of progress, first the more-simple varieties were selected for production. These are easier to handle, but resulted in a lower revenues per m<sup>2</sup> than forecasted;
- Leaking problems of the water catchment area;
- HSE awareness of employees. Handbooks and protocols were made, and the local employees were trained by professionals in firefighting and first aid - which is a good starting point – but there is a need for more focus of local management on this subject.

### 2.2 Results up to date

The result to date is an operational greenhouse area with 100+ local employees, with actual paying clients plus requests from actual and potential clients to increase production. The initial scale of 1ha greenhouses is in the process of increasing to 2ha. It is still small to result in a steady, significant and positive cashflow and therefore needs further extension of production capacity in the future.

<https://goo.gl/maps/H1tArVdiDgnviLSn9>

## 3. Investment

### 3.1 The actual situation

The initial plans for investing had some revisions over the years since the first Certificate of Incentives (CoI) were issued due to evolution of the market threats and opportunities.

Because in 2017 the special purpose company (SPC) GVA TZ Ltd was not yet established, the first CoI has been requested for by PIH. That CoI has been issued by TIC to in 2018. In 2019 a revised CoI was issued by TIC to PIH due to requirements for registering the farms/obtainment of land titles of the land which was allocated for the GVA TZ project.

Once GVA TZ Limited was established late 2018 a CoI has been requested at TIC on name of GVA TZ, which has been issued in 2019. The investment sum at that CoI showed about 1 million US \$. Due to all challenges as described in the chapter 2 the pace of investing has been less fast as planned while operations cost increased. The planning is, once the farm rights have been secured, to continue investing in even more greenhouse area, resulting in more production, more employment and more revenues.

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## 4. SWOT analysis

The SWOT analysis has, apart from the company's financial situation and diseases pressure, only changed in a positive direction.

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• The company and the team have built up experience in the seed industry</li> <li>• Low commercial risks as we have contracted high reputed clients in NL paying in hard currency</li> <li>• Solid reputation and excellent network among targeted clients</li> <li>• GVA has a Certificate of Registration as Seeds Dealer (TOSCI) and permit from the waterboard</li> <li>• Availability of fresh water is arranged</li> <li>• Labour capacity for greenhouses is available locally, as there is a high unemployment rate in the region.</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Still the relatively young history of the business implies limited investment capital due to current cash flow position</li> <li>• Local work force is potentially good but lacks specific skills. For some key functions GVA had to recruit in Kenya.</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• The demand among the major seed companies for low-risk outsourced seed-multiplication is both still high and urgent, resulting in easy market absorption and high returns</li> <li>• The business is highly suitable for upscaling and spin-offs:             <ul style="list-style-type: none"> <li>○ Increased scale of operations (e.g. throughout growers' scheme)</li> <li>○ Diversification of products and markets</li> <li>○ Upgrading quality level</li> </ul> </li> <li>• Recognition and valuation of more sustainable agricultural practices is rising</li> <li>• Lack of competition and inflexibility of potential competitors.</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Seed borne diseases</li> <li>• Climate change (one of the reasons to invest in greenhouses and smart, climate safe irrigation)</li> <li>• Future use of hard pesticides by neighbours might damage our unique biodiversity-based crop protection system. With acquisition of the remaining land this risk is reduced</li> <li>• Our success might attract competitors to also establish seed multiplication businesses in our area, resulting in higher risk of increased pest and disease pressure</li> <li>• Governmental policy changes which make it impossible to run the farm</li> <li>• New regulations and standards which might delay or obstruct the actual production (for example TOSCI requires suddenly a training course for GVA employees before allowing us to export of seeds)</li> </ul>

## 5. Growth strategy, KPI's for the coming years and scalability

### 5.1 Achievements to date

- Cooperation with co-owner PIH
  - Land acquisition by GVA of PI of 5ha farm at Kichakani (2022), and additional land acquisition of 8ha neighbouring land (2020) which totals at 13ha as presented in the picture below
- Upscaling of the greenhouse area to 2ha.

### 5.2 Growth strategy and KPI's for the coming years

- Q2-2023
  - Upscaling the farm and the seed multiplication operations
  - Employing more FTE on a permanent basis depending on the scale of greenhouses
  - Start the implementation of industry-specific quality management systems and obtaining certificates (e.g. the international GSPP certificate (Good Seed and Plant Practices) for tomato seeds, for which we aim to obtain the basic level certificate)
- After 2026:
  - Further upscaling the business on a permanent basis
  - Obtaining an advanced level GSPP certificate.

### 5.3 Scalability

The growth in the first five years shows that the business concept is relatively easily scalable. Other aspects that make it more scalable in the future are:

- Extending the scale of operations:
  - Further extension of the planted areas;
  - Extending the scale by working with outgrowers;
  - Establishing satellite production areas in other regions in Tanzania;
  - Boosting the sales level, by diversification of outlets (e.g. also starting production for the African market).
  - Further upgrading the seed multiplication business to higher certified levels, like we did with the GSPP certificate.

## 6. Key risks and contingency strategies

### **Risk of loss in yields due to a lack or excess of rainfall**

Agriculture always has the possibility of loss in yields due to a lack or excess of rainfall. However, the rainfall in the area is mostly quite sufficient with 690 mm per year on average ~ small risk.

In case of low rainfall we have back up from our solar powered smart irrigation systems combined with a water pond fed by a local spring passing by our farm.

### **Risk of diseases**

Diseases constitute a risk that can affect the produce but will be mitigated by the strategic choice for the in-house developed Mtumbi system (2020), by making maximum use of the available biodiversity and by rational use of sustainable crop protection products.

### **Reliability of power**

Reliable power supply is important for processing of seeds. Although power is not very reliable in Tanzania and our processes are not fully continuous it can deal with occasional outages. To reduce the dependency on the local electricity grid, GVA has already acquired a new diesel generator. Once loans have been repaid the plan is to develop and install solar power. Combined with a biodiesel powered generator as a back-up this system makes the whole storage system far more reliable.

### **Disturbance of the environment**

The location of the business in Iringa has a low disease pressure, due to its isolation, pureness and strong biodiversity which gives perfect conditions for seed multiplication. Should GVA's success attract newcomers (either in general agriculture or horticulture or in seed production), we might risk losing this perfect environment, as newcomers create concentration and might be using hard pesticides. GVA counters these risks by taking options on land for buffer zones and by lobbying at the local and regional legislators.

### **Favourable pricing and payment terms as contingency measures**

Risks like the above are countered by highly favourable pricing and payment conditions that GVA was able to negotiate with clients. For the first two years the clients agreed to pay a guaranteed price well above average. On top of that clients agreed to either pay per M2 instead of per KG yield, or to calculate with around 20% less KGs of seeds per plant than technically possible, allowing us to achieve 20% higher turnover. Moreover they pay 40% advance payment upon order and accept to pay a guaranteed price even in case of crop failure (minimum 80%).

### **New government-imposed restrictions in response to pandemic**

Though it wasn't the most predominant challenge, the government-imposed restrictions in response to the COVID-19 pandemic did have an impact. The Dutch management couldn't travel and carry out its management duties and technical assistance. It can't be excluded that in the future new restrictions will be imposed. The organizational restructuring has made GVA more resilient to this risk.

## 7. Management and Ownership/ Legal structure

### 7.1 Ownership

The actual shareholders of GVA TZ Ltd are:

- GVA NL BV 99%
- PI Holding Ltd 1%

### 7.2 Supporting Network

Additional operational and technical specialists and back-up is identified and made available from our extensive international network on sustainable farming, seed, herbicides and diseases, cold storage, logistics, legal, accounting & tax. Specialists are available on call. A few persons to be mentioned:

- Experts on:
  - Rural development Africa in agriculture, economic development, microfinance, water, health and education
  - Natural resource management & land use planning in Africa of Wageningen UR
  - International specialist on land, erosion and water management from Wageningen UR
- World leading seed producers
- Agricultural Officer, Embassy of the Kingdom of the Netherlands, Dar es Salaam, Tanzania
- Former First Secretary Embassy of the Netherlands, Dar es Salaam, Tanzania

TAHA; The Tanzania Horticultural Association (TAHA) is an apex private sector member-based organization that advocates for the growth and competitiveness of the horticultural industry in Tanzania.

TOSCI: TANZANIA OFFICIAL SEED CERTIFICATION INSTITUTE for import-/export permits

SACGOT: Southern Agricultural Growth Corridor of Tanzania. The Southern Agricultural Growth Corridor of Tanzania Initiative is a Public-Private Partnership initiated at the World Economic Forum (WEF) Africa (WEFA) Summit in Dar es Salaam in 2010. Its ultimate objective is to boost agricultural productivity, improve food security, reduce poverty and ensure environmental sustainability through the commercialization of smallholder agriculture.