**XXX COMMUNITY BASED ENTERPRISE**

**PIONEERING BAOBAB SECTOR QUALITY PRODUCTS PROCESSING IN KENYA**

 **BUSINESS PLAN ESTABLISHMENT**

 **MAY 2023**

XXX Community Based Enterprise (MCBE)

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## Executive Summary

* 1. **Proposition**

XXX Community Enterprise (CE) will be registered as a limited liability company that will establish a baobab products processing enterprise in Kilifi County, Kenya. The enterprise will be guided by a detailed10-year strategic plan (2019 – 2028) that will be financed by equity investment for its initial operative and funding needs. Specifically, XXX Community Enterprise aims at accomplishing the following objectives:

* Establish commercial production volumes of the lead product XXX Powder of 5 tons annually for the local market by 2021.
* Increase production of XXX Powder in consideration of the existing local customer requirements and build up stocks for additional local, regional and international markets at increasing levels to 10 tons per year within the first seven years of establishment.
* Establish commercial production volumes of XXX Oil of more than 500 kgs annually for the local market by 2021.
* Increase production of XXX Oil in consideration of the existing local customer requirements and build up sales for additional local, regional and international markets progressively to 800+ Kgs annually within the first seven years of establishment.
* Utilising the waste production from XXX Oil production, develop sales of XXX Seed Cake in local markets at levels of more than 9,000kgs annually by 2021.
* Diversify markets for XXX Powder through the development of different products in partnership with various trading partners from the food, beverage and health sector. Explore markets for XXX Fibre as an inclusion into healthy diets.
* In conjunction with investing partner ZZZ, develop international markets including for quality XXX oil adjuvants for herbicides, insecticides, fungicides, biologicals, foliar applied nutrients and fertilizers. With this partner niche markets will be developed also for skin and hair protection products.
* Create a strong operative business structure to deliver its strategic plan. This will include investment in suitable machinery, storage facilities for raw and processed materials as well as training and build the capacity of staff.
* Build up on existing YYY and ZZZ natural products local, regional and international marketing platforms and tap into emerging consumer markets.

## Financials

XXX Community Enterprise will focus on the processing of bulk raw XXX Powder and XXX Oil mainly for the local market. The company projects a gradual growth into the regional and international market after five years of satisfactory local market penetration and product quality consistency.



The table above presents the base line Income Statement projections for the first five years of operation. It shows that after initial losses generated in 2019 when the company will be concentrating on its first raw materials buying exercise prior to commencing processing and sales in 2020, profits are then generated consistently through the first 5 years of full operations. This means that the company will be paying corporation tax from 2020.

The Revenue streams show consistent growth based on the assumed increase in Baobab powder processing of 15% annually from the initial base of 5,000 kg of powder produced in 2020. Notably the Gross Profit throughout is extremely high – around 80% for the first five years. This reflects the costs of raw materials and direct operating costs which have been kept low through maintaining a lean operation and also the relatively short supply chain and logistics. Major cost categories are for Marketing and the Administration costs – with Marketing being seen as especially important in establishing the company in a new sector operating with new products. The Administration costs reflect also the need to ensure a strong team in maintaining control of the operations.

The product lines themselves comprise an initial four categories – Baobab Powder, Baobab Oil, Baobab Seed and Baobab Seedcake.

The company's products XXX Powder and XXX Oil will be sold at a competitive price based on the current local market rates. With little established mainstream supplies of XXX Oil for niche domestic, regional and international markets and almost none focusing on XXX Powder supply in Kenya, CE is expected to set the stage and have the market organized by developing a price structure that looks at all the critical factors affecting the market.

Projected baseline Revenues generated from Projected Sales volumes for each of the four broad categories is shown in the table below – this table showing also the initial expected breakdown of unit sales within each category.



CE will also be seeking to access regional and international markets as demand develops. However, this will be only realized once the production model, supply chain and quality assurance have been fully implemented and perfected.

XXX Community Enterprise needs to raise funds to finance the implementation of the business plan. Specifically, the forecast required capital to finance expenditures, projected start-up losses, direct start-up costs and working capital is assessed at USD 100,000.

* Out of the total required, USD 49,034 is currently being been raised - or is currently being considered by funders.
* CE has established initial negotiations with XXX farmers’ cooperatives in selected villages of Kilifi county to provide land and local materials for the construction of recommended temporary storage facilities for harvested materials before transportation to the CE Kilifi factory.

The remaining funding requirements of USD 50,966 need to be raised at the outset for the launch of processing operations. CE is exploring options for funding the investment capital required to operationalize the business. These include equity, loan, donor funding or a combination.

The factory premises belong to partner YYY and will be rented by CE – meaning there will not be a need to finance a factory acquisition. The Financing needs and investments together to be made with expected sources are shown in the table below:

|  |  |  |
| --- | --- | --- |
| Equipment | KSh 2,515,660 | KSh |
| Working Capital | 7,484,340 |  |
| Equity |  | 1,000,000 |
| Donor funding |  | 3,900,000 |
| Funding needed |   | 5,100,000 |
|  | 10,000,000 | 10,000,000 |

Appendix XX presents the Investment in equipment in detail including pricing and specifications where applicable. Beyond the initial investments in equipment, it is expected that investment in expansion and replacement equipment will be met through cash flow generated by the business. The initial investment in equipment is represented in the following table:



## XXX Community Enterprise Company Limited and Country Context

* 1. **History, Ownership and Organization Structure**

XXX Community Based Enterprise will be registered as a limited liability company under the Companies Act (Cap. 486) under Kenyan Laws by May 2019. The Certificate of Incorporation and Articles of Association will be included in the Appendix as soon as they are available. The company will have a very clear shareholding structure and will be physically located at Wild Living Hub, Kilifi County, Kenya.

The business establishment came about through the need to tap into the unique and emerging market of XXX products in Kenya. This has been based on research, training and capacity building programs established by partner YYY on the local natural products sector

The founding members of XXX Community Enterprise are set out below:

* Include Name of Director/Shareholder and their specific role i.e. (25% equity holding) Director, Sales and Marketing
* Include Name of Director/Shareholder and their specific role i.e. (25% equity holding) Director, Factory Operations
* Include Name of Director/Shareholder and their specific role i.e. (25% equity holding) Director, Supply Chain Development and Product Research & Development
* Include Name of Director/Shareholder and their specific role i.e. (25% equity holding) Director, Commercial Operations

These initial shareholders will contribute USD100,000 between them for the establishment and registration of the enterprise start-up and will retain 10% in proportion of the company’s equity as provided for under the Companies Act once the company is fully funded.

Upon establishment CE will require additional investment capital for the operationalization of the XXX processing factory and full implementation of the business plan. If the company is funded entirely through equity then the shareholder profile will look as follows:

Name of Director/Shareholder 5%

Name of Director/Shareholder 5%

Name of Director/Shareholder 5%

Name of Director/Shareholder 5%

Name of Director/Shareholder 10%

Name of Director/Shareholder 10%

Name of Director/Shareholder 10%

Name of Director/Shareholder (Investing partners) 50%

Additional details of shareholding and company profiles, CE organizational structure and list of the initially registered harvesting members of FCS will be included in the appendixes.

## XXX Community Enterprise business proposition

XXX Community Enterprise will engage in procurement of raw XXX pulp from farmers, processing the pulp into XXX Powder and Oil for selling in bulk to local customers. XXX is the local name for the *Adansonia digitata* (Baobab) tree species. The baobab resource is widespread in Kenya and can be found in the following counties:

* Tharaka Nithi County
* Machakos County
* Kitui County
* Taita-Taveta County
* Kwale County
* Mombasa County
* Kilifi County
* Tana River County
* Lamu County.

(Appendix xxx Attach Map showing location of counties with XXX and the XXX transect established by JKUAT for Kilifi County.)

CE will train and equip farmers on sustainable harvesting, hygienic field processing and recommended storage conditions for XXX before transportation to the factory. The farmers will be awarded annual XXX supply contracts, renewable subject to strict adherence to the required correct harvesting, field processing and storage procedures. CE aims at harnessing this unique natural resource that has a huge potential in transforming farmers economic returns hence, improving their livelihoods in the long term as proven in other African regions.

The processing powder output utilizing the Penn State University XXX powder machine will be 204kgs per day. As operations are upscale with an additional machine from 2021 the daily output will be doubled to 408kgs and 10 metric tons by 2025. The XXX powder processing unit will be enhanced as needed to comfortably fit additional XXX Powder processing machines with similar capacity. XXX Powder processing will take place over 4 to 5 months annually with a gradual decrease in days required for processing over the next 9 years with the commissioning of additional XXX Powder processing machines.

XXX pods containing the pulp and seed mature on the tree and will be collected from XXX trees by individual CE trained and registered farmers from their own farms during the harvesting season. The farmers, in conjunction with extension agents and CE field officers, will ensure that the necessary quality control is undertaken so as to only transport to central homestead preparation centers pods that are clean, uncracked, uninfested, healthy and mature. Registered CE farmers will be equipped with colour coded designated sacks for storage and transportation of collected materials to cracking centers.

CE will have a planned central collection schedule for each harvesting village. Farmers are expected to keep good records of their harvests including dates, time and weight. Farmers are expected at all times to protect mature baobab trees as well as sprouting wildings by engaging in sustainable management practices ensuring that critical biodiversity population is maintained.

Processing of Baobab powder will commence in January annually and will be completed by end April – or the start of the annual “small” rains as Baobab powder is hydroscopic and should not be processed during the rains. Initial capacity has been demonstrated as sufficient whilst further processing machines will be added as production builds. XXX Oil processing will start with one oil press processing 300kgs of seed per day, producing 300 kg oil per month. The production plans show that one oil press will provide sufficient capacity for the planned production levels.

Raw materials sourcing will target members of the XXX Farmers Cooperative Society in Kilifi County (FCS). The initial target will be a supply of 25 metric tons of XXX Pulp by CE registered farmers supplying over a period of 3 months – sufficient for producing 5 metric tons of Baobab powder. A resource survey and mapping of the baobab populations through a selected transect in Kilifi County has been undertaken by Jomo Kenyatta University of Agriculture and Technology (JKUAT), who are partners in the Project. This maps the resource and state of the available baobab population to XXX Farmers Cooperative Society (FCS) – and indicates that there is a very substantial resource of Baobab within Kilifi county and provides more than sufficient for CE foreseeable needs. The survey helps farmers in realistically planning of projected increase in production up to 87 metric tons of powder by 2028 with each of the 240 farmers delivering an average of 360 kgs of XXX Pulp.

An agreement will be entered with the XXX Farmers Cooperative Society (FCS) to ensure that XXX Pulp will be sourced from fully trained and registered members of the cooperative. As the production increases CE will increase the radius of the targeted area as well as sources from other areas. CE also has plans in place for replication and expansion of processing activities in other XXX Producing areas in Kenya to be activated as and when market conditions allow.

Trained and registered farmers of the FCS will from the outset be paid on a cash on delivery basis upon satisfactory secondary quality control and confirmation of weight at the XXX Factory in Kilifi. To empower the farmers and ensure that they make the right financial management decisions of their earnings, CE will enter an agreement with Kenyan Globally recognized microfinance institution Equity Bank and Safaricom Limited revolutionary MPESA mobile money transfer to channel farmers payments through these 2 products, enabling them to save and earn interest. At an initial purchase price of Ksh 25/kg of pulp, the average farmer could be earning an additional KES 9,000 from baobab opportunities.

Bulk XXX Pulp will be transported to the factory using 20-ton dust and rain proof Canter trucks contracted by CE in an organized structure that ensures that farmers are informed in advance of their collection days with a well outlined payment structure. The trucks will transport 4 – 5 metric tons of XXX Pulp per trip and therefore expected to make 5 trips in total in the first year of operation.

## XXX Community Based Enterprise factory

XXX Community Enterprise is located in Kilifi Town, Kilifi County, one of the most densely baobab populated counties in Kenya. The factory location is perfect for XXX Powder and Oil processing as it is centrally placed with 2 tarmac main roads on either side, the Mombasa – Malindi highway and the Old Ferry road. The county is well connected with a reliable road network that comprises well-maintained marram roads connecting the proposed harvesting villages to the tarred Mavueni - Mariakani main Road that joins the Mombasa – Malindi Highway to Kilifi.

Since November 2017 CE has been in negotiation with FCS for land and in-kind contribution of community collection centers and recommended storage facilities in four selected harvesting village clusters in Kilifi county. The combined value of community land and in-kind contribution is expected to range between USD 10,000 and USD 15,000.

The processing site and CE office is owned by YYY which has a rental lease agreement with CE for XXX Powder and XXX Oil processing (the rental agreement is included in Appendix ZZ).

The processing factory is fully serviced with KPLC 3 phase electricity transformer and KIMAWASCO mains water. The factory is situated next to the Farm 99 Project that is being implemented by YYY through funding and collaboration by a UK based company. This presents a unique opportunity for research and development of XXX Oil related products that can be marketed through YYY domestic marketing platform for natural products and research and product development opportunities through the UK based company which has a well-structured global distribution channels. CE will be provided with a unique opportunity for diversifying products for the domestic market whilst accessing niche markets for fair trade and organically certified products for its future regional and global markets.

A site map and a plan of the premises together with photographs are included as Appendix xxx.

Before commencement of operations in August 2019 CE will have addressed various local legal requirements. These will include:

* Undertaking an Environmental Impact Assessment (EIA)
* Building inspections
* Preparation of factory licensing
* Signing of XXX Pulp supply contracts with XXX Farmer Cooperative Society.

In addition, CE will require to have all its Standard Operating Procedures (SOP) for field and factory operations documented and staff training and capacity building will be fully implemented.

## Personnel

The Board of Directors (BOD), comprising partnering shareholders, will maintain an active business management and technical advisory oversight role. The shareholding partners will offer their experience and expertise on various operational areas including, factory operations, marketing and supply chain development, commercial operations and ethical and fairtrade certification through negotiated contracts. Where additional capacity and experience is required CE will outsource for suitable candidates through a competitive process backed up by credible recommendations.

CE Board will employ the following staff led by a competent and experienced General Manager by June 2019:

* 1 General Manager (GM) who will be in charge, managing other staff and implementation of day to day business operations.
* 1 Market Development Officer (MDO): will be in charge of XXX Powder and Oil market establishment, penetration and expansion.
* 1 Factory Operations Supervisor (FOS): coordination of harvesting, pulp preparation, collection and factory processing activities for XXX Powder and XXX Oil.
* Accounts and Administration Officers: In charge of day to day accounting and office administration activities including purchasing, payments, public relations and front office.
* 3 Machine Operators (MO): The machine operators will be in charge of operating the XXX Powder and XXX Oil processing machines.
* 4 Factory Labourers (FL): Will assist with factory processing activities, equipment cleaning and maintenance, laundry and general factory internal and external hygiene and cleanliness.
* 4 Village Extension Agents (VEA): coordination and direct hands on supervision of field harvesting activities, pulp preparation, storage and transportation.

Factory operations will be implemented on a 12-hour shift basis in consideration of the provisions of the Employment Act 2007. As such all staff will be required to work for a maximum of 8 hours a day with extra hours of work attracting overtime. The XXX Pulp will be purchased from farmers from September of each year with XXX Powder processing activities taking place between January and March each year. The staff complement will be increased on need to need basis as the processing is upscaled and domestic and international markets become feasible.

## Kenya – Country Context

The Republic of Kenya is a country in Eastern Africa, with a population of approximately 41.61 million people. It lies on the equator and is bordered by Ethiopia (North), Somalia (North East), Tanzania (South), Uganda (West), and South Sudan (North West), with the Indian Ocean running along the southeast border. It has an extension of 582,646 sq. km. The country is named after Mount Kenya - before 1920, the area now known as Kenya was known as the British East Africa Protectorate. Kenya is a diverse nation of 42 distinct ethnic groups. Official languages are Swahili and English and the currency is Kenyan Shilling. (include map on the appendixes)

Kenya’s political context has been heavily shaped by historical domestic contestation. After a more than two decades long process of constitutional review and post-election violence, the approval of the new constitution in 2010 and relatively peaceful election of H.E. President Uhuru Kenyatta’s government in March 2013 are milestones constituting steps forward in Kenya’s transition from political crisis.

Kenya has the largest and most diverse economy in East Africa, with an average annual growth rate of over 5% for nearly a decade. In terms of Human Development Index Kenya ranks highest in the region. Its entrepreneurship and human capital give it huge potential for further growth, job creation and poverty reduction. The recent discovery of oil and other mineral resources creates great potential for the Kenyan economy. However, despite a decline of the country’s absolute poverty rate, wealth has not been distributed equally. Kenya remains a highly unequal society by income, by gender, and by geographical location. Poverty is highest in the arid and semi-arid areas that cover about 80% of the land area and are inhabited by about 20% of the population. Poverty also affects the coastal area, which receives fewer resources. Rapid population growth is another major challenge, further complicated by high unemployment rates especially among the youth. More than 70 per cent of Kenya’s population are below the age of 30 and the population under age 14 alone amounts to 43 percent. ([www.interactions.eldis.org](http://www.interactions.eldis.org/) )

## Strategy

XXX Community Enterprise has been established as the first reliable processor and supplier of quality XXX Powder, XXX Oil and XXX Seed Cake for the domestic Kenyan market. As the business grows and the consistency of quality and availability of required products is achieved by CE, regional and wider domestic markets will be explored and established for XXX Powder and XXX Oil.

## Company Strategic Vision

* **Purpose:** To be a pioneer of reliable supply of sustainable, ethical and fairly sourced XXX Powder and XXX Oil for the domestic market in Kenya creating a future potential of trading in regional and international markets for natural products.
* **Vision:** To establish a well-structured, reliable and credible XXX Powder and XXX Oil supply chain that ensures realization of the full social, economic and environmental benefits of the underutilised XXX forest resource in Kenya.
* **Mission statement:** To become a leading processor of high quality XXX Powder and XXX Oil for the domestic, regional and international markets.
* **Core values:** To fully implement a strict benefit sharing analysis ensuring that customers are offered high quality product and service, and that harvesting communities are fairly incentivised through fair trade sourcing

thereby placing an economic value to the conservation and protection of baobab tree species in Kenya.

* **Goals** To build a strong Kenyan XXX industry, replicate baobab processing to other baobab producing regions and diversify XXX products through research and product development. Attain sustainable, ethical and fair trade certification of XXX Products in Kenya,

## Strategic Core Aims

XXX Community Enterprise will deliver the following key strategic objectives.

## Establish its lead XXX Powder product with core domestic customers building up towards the regional and international markets.

XXX Community Enterprise will establish commercial processing volumes of the lead product XXX Powder at 5 tons annually for the local market of up to 40 customers by 2021. By 2028 CE will build up on the existing YYY, Natures Oils Enterprise and ZZZ natural products local, regional and international marketing platforms and tap into emerging consumer markets. As such CE will also increase production of the lead XXX Powder in consideration of the existing local customer requirements and build up sales for additional local, regional and international markets.

## Establish XXX Oil product with core domestic customers building up towards the regional and international markets.

XXX Community Enterprise will establish commercial production volumes of XXX Oil of more than 500 kgs annually for the local market by 2021. Additionally, the production line of XXX Oil will be increased in consideration of the existing local customer requirements and build up stocks for additional local, regional and international markets.

## Diversify XXX Powder Market

XXX Community Enterprise will diversify markets for XXX Powder through research and development into different products in partnership with Non-Solo Gelato, Kilifi Back Packers and Ubora Dairy Farmers Cooperative and inclusion of the waste XXX Fibre into healthy diets in conjunction with Healthy U Limited (HUL), Lenana Health Center (LHC), Murugu Health Center (MHC) and Makini Herbal Clinic (MHC).

## Diversify XXX Oil Market

XXX Community Enterprise in conjunction with investing and trading partners ZZZ, will develop local, regional and international markets including for quality XXX oil adjuvants for herbicides, insecticides, fungicides, biologicals, foliar applied nutrients and fertilizers. With Natures Oils Enterprise (NOE) and Nude Essentials Limited (NEL) CE will develop niche markets for skin and hair protection products through research applied strategies.

## Develop the operational structures so as to fit the planned production increases

XXX Community Enterprise will create a strong operative business structure to deliver its strategic plan. This will include investment in suitable factory storage facilities for raw and processed materials as well as training and building the capacity of its staff. CE will also implement a long-term training and capacity building programme for the XXX Farmers Cooperative Society (FCS) to ensure that all recommended harvesting protocols, XXX Pulp preparations and recommended storage protocols are strictly upheld ensuring the processing of consistent high-quality baobab powder.

## Develop new products from XXX Seed Cake

XXX Community Enterprise (CE) will work with its investing and trading partners ZZZ, XXX Farmers Cooperative Society (FCS), Makaazingira Community Enterprise (MCE) in the research and development of new products using the secondary product XXX seed cake. CE expects also to benefit from the research programmes being implemented through the Baoquality Project in which it is a partner. Among the potential products targeted for development are included: biochar, animal feeds and eco-charcoal briquettes.

## Build the capacity of its suppliers

XXX Community Enterprise (CE) will invest in a training and capacity building program as a critical element in the achievement of the companies 10- year strategic development plan. Key to the strategic development plan will be to ensuring that in collaboration with the harvesting farmers, key social, economic and environmental objective are collectively achieved. As such CE will partner with YYY, Natures Oils Enterprise and ZZZ in the implementation of a comprehensive training program for XXX Farmers Cooperative Society (FCS).

The regular trainings will be reinforced by CE appointed Village agents who will monitor XXX on farm management, recommended sustainable harvesting activities, XXX Pulp preparation, storage and transportation. Trained farmers will be registered, certified after annual assessments and awarded annual renewable supply contracts for XXX Pulp.

## The Products

* 1. **XXX “Baobab” Products background**

The XXX resource is currently underutilized in Kenya with few enterprises engaged in processing activities. Those that do are processing mainly oil for export at a commercial scale. There is limited awareness on its health, food and economic benefits. Small scale business women engage in value addition of the pulp by mixing with food colour and powdered sugar to produce the famous XXX sweets sold on the road sides in villages, towns, shops and market places.

By harnessing XXX’s sustainable food and cosmetic products, large segments of Kenya’s subsistence farming community will benefit. The baobab offers additional subsistence values – such as the highly nutritious food from its leaves that can form an important component for increasing food security, and commercial values such as

from its fruit powder which contains some 16 times the Vitamin C content of oranges that is in demand from the local, domestic and international health food sector, and from its seed oil that maintains excellent non-drying properties and is in increasing demand from the local, regional and international cosmetics industry.

## XXX Powder – the ‘Lead Product’

CE will establish factory processing for the lead product XXX Powder. By 2028 CE will build up on the existing YYY, Natures Oils Enterprise and ZZZ natural products local, regional and international marketing platforms and tap into emerging consumer markets. As such CE will also increase production of the lead XXX Powder in consideration of the existing local customer requirements and build up stocks for additional local, regional and international markets.

## XXX Oil – the ‘Niche Market Product’

XXX Community Enterprise will establish commercial production volumes of XXX Oil for the local market by 2021. Additionally, the production line of XXX Oil will be increased in consideration of the existing local customer requirements and build up stocks for additional local, regional and international markets.

## XXX Seedcake – Product Research and Development

XXX Seedcake is produced as a waste product from the Oil processing activity. However, it also has a range of potential commercial values including animal feeds and composting – while further development work will be undertaken in association with partners aimed at increasing potential value.

## The Markets

* 1. **Production and Marketing in Partnership**

XXX Community Enterprise will strengthen existing and establish new business partnerships with enterprises so as to be able to establish its position and capacity for ethical, certified and sustainable XXX production in Kenya. It will aim to harness the technical expertise that these organizations already have as a foundation to develop a sound business. The key factors of growth here would be acquisition through training, capacity building and consultancy of the following essential skills; Business Administration and Management, Marketing and Public Relations, Production/Quality Control and Value Addition, Business Planning, Risk Management, compliance with government policies and legislative frameworks, Monitoring and Evaluation and Ethical and Environmental Certification.

CE will partner with the following companies to address its funding and expert skills requirement in the establishment a successful XXX processing business. Among other forms of technical, marketing, innovation and R&D support, some of the following companies will also invest in MCBE through equity and share capital.

## Natures Oils Enterprise

NOE is a social enterprise established in Kenya. The social enterprise value adds natural oils presenting them in unique packaging that is both informative and appealing

to the consumers. Among its products lines, NOE focuses on: baobab oil, coconut oil, shea oil, Cape Chestnut oil, and neem oil.

## ZZZ

Led by CEO Rob Barnett MUK Limited Ltd is a UK based company that manufactures natural oil adjuvants that are ideal for the manufacture of spray products such as; herbicides, insecticides, fungicides, biologicals, foliar applied nutrients and fertilizers.

Through the Farm 99 project funded by ZZZ, CE will benefit from baobab products value addition research and development with an outcome of more products being developed and introduced in the market into the local, regional and international markets using MUKL’s extensive distribution network of 38 countries in the world.

## YYY

The YYY NGO has been in existence for the last 13 years. The organization aims to address the fundamental lack of production and marketing assistance provided to Kenya’s community natural resource-based enterprises. The NGO strives to link identified producer initiatives to conscientious consumer markets and to increasingly act as the economic incentive for increased poverty alleviation, livelihoods creation and the continued conservation of the natural resources they rely upon.

## XXX Community Enterprise products and their Markets

XXX Community Enterprise will focus on the processing of a select range of XXX products for the local market as the primary business objective. As the enterprise growth and impact is achieved as part of its short term and mid-term objectives, CE will expand its marketing strategy to target regional and international markets for baobab products.

The main primary products targeted for processing by CE will be;

* XXX Powder
* XXX Oil
* XXX Seed Cake

The XXX Community Enterprise (CE) products will be processed and sold mainly through established domestic markets; (attach list of customers on the appendixes).

## Financials

## Financial Overview

XXX Community Enterprise plans to develop a B2B primary production and processing business based on Baobab products centered in Kilifi County, Kenya. The primary production activities include community-based harvest and primary processing of Baobab fruit into Baobab pulp plus seed, transfer of the pulp plus seed to the factory in Kilifi, processing the Baobab pulp plus seed into powder and separated seed, and then processing the resulting seed into oil.

The resulting primary products are Baobab powder, Baobab oil, Baobab seedcake. Recognizing that the processing of the pulp and seed into powder and separate seed will produce far more seed than CE can expect to sell as processed oil at the outset, there will be a further product offered initially – Baobab seed. This last product will be offered for sale to other processors of Baobab oil in Nairobi.

The Financial Model that has been built up incorporates these primary activities and is prepared not only to provide a focus for the management team and the investors into CE, but also in support of the additional funding that the project requires as its startup needs. The preparation of this business plan has been on a very conservative basis and the financial model reflects this. The yields of Baobab powder from the pulp plus seed for example have been taken on a low basis for the baseline case, as has the yield of oil from the seed. These have been based in turn on actually achieved yields in other similar operations within the eastern African region but need to be proven in the Kilifi context.

The sales mix for each of the two primary products – powder and oil – is aimed at bulk units. However, it has been recognized that there will be a need to build sales of bulk items with clients as they themselves develop their own markets. Therefore, early sales have been concentrated instead on sales of smaller sized units – likely packed on behalf of customers although also possibly under CE own brand. As the timeline develops it has been assumed that the sales proportions begin to change towards sales of bulk units – although the growth in production means that numerical sales of smaller units remains relatively constant. Again, in line with the conservative buildup of the plan, it has been assumed that no exports take place during the first 10 years – although it is certainly the plan to develop these once the domestic markets have been established.

Throughout the Financial Model, prices and exchange rates (where applicable) have been kept constant. Production volumes of powder have been assumed to be the primary driver and the Financial Model baseline allows for a relatively conservative annual increase of 15% from a relatively modest initial level of 5,000 kg powder annually. Baseline pricing has been taken as a combination of internationally achieved bulk prices with reference to local market achievements.

## Additional finance requirements

Initial funding has been identified through private investors along with additional funding being sought through a donor programme. The CE sponsors are confident that these sources combined will realize just under half of the needed funding. Project cost has been assessed at US$100,000 (Ksh 10,000,000) and this results in the following funding mix and investment need:

|  |  |  |
| --- | --- | --- |
| *Equipment* | *KSh 2,515,660* | *KSh* |
| *Working Capital* | *7,484,340* |  |
| *Equity* |  | *1,000,000* |
| *Donor funding* |  | *3,900,000* |
| *Funding needed* |  *\_* | *5,100,000* |
|  | *10,000,000* | *10,000,000* |

Once the initial funding is in place, the Financial Model generates sufficient positive cash flow to cover planned additional and replacement investments over the ten-year period without the need for additional funding sources. The factory – although custom designed for use by CE – is not owned by CE and the company will continue to rent throughout the Financial Model period.

## Trading Projections

The Summary base trading projections are detailed below:



The detailed Financial Model is included as Appendix 1. This comprises the Assumptions made, Equipment Investment schedules, Production Planning, Operational, Administrative and Marketing costs, Revenues earned, Cash Flows, Income Statement and Balance Sheet.

For the sake of this initial presentation of the Financial Model – none of the funding required has been included within the model thus showing the overall needs. Once the funding mix and especially the funding for the first 50% has been finalized then this section can be incorporated. The balance sheet reflects this position.

It is notable also that the acquisition of Baobab pulp takes place annually in September to December and the main secondary processing of the pulp into powder January to March. With the financial year-end being December there is a cash flow mis-match with sales taking place of the processed raw materials the following year. Once initial production has been achieved it is assumed that sales of all products take place throughout the year although powder production continues to be completed by March each year.

## Viability and Sensitivity

The base case shown in Section 9.3 above uses the following primary pointers:

Baobab powder sales 5,000 kg total (@ 1,500 kg x 1 kg; 1,500 kg x 5

kg; 1,500 kg x 50 kg and 0 kg x 100 kg)

|  |  |  |
| --- | --- | --- |
| Baobab powder pricing | 1 kg | KSh 1,800/kg |
|  | 5 kg | KSh 1,500/kg |
|  | 50 kg | KSh 1,200/kg |
|  | 100 kg | KSh 1,000/kg |

Baobab powder revenue KSh 7,250,000

|  |  |  |
| --- | --- | --- |
| Baobab oil pricing | 1 kg | KSh 2,500/kg |
|  | 2 kg | KSh 2,300/kg |
|  | 5 kg | KSh 2,250/kg |
|  | 20 kg | KSh 2,000/kg |
|  | 100 kg | KSh 1,500/kg |
|  | 200 kg | KSh 1,200/kg |

Baobab oil sales 470 kg total (94 kg x 1 kg; 94 kg x 2kg; 141 kg x 5kg; 141 kg x 20 kg and 0 kg by either 100 kg or 200 kg)

Baobab oil revenue KSh 1,047,656

Baobab seedcake sales 8,906 kg

Baobab seedcake pricing KSh 20/kg

Baobab seedcake revenue KSh 178,125

# Baobab seed sales 9,375 kg

Baobab seed pricing KSh 29/kg

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Baobab seed revenue KSh 267,857

Overall Gross Profit % 79.89%

It should be noted also that with the Baobab powder being the primary driver in the costs base and revenue generation, the baobab oil production as well as the resulting seed cake and seed sales is effectively treated as by-products generating only their own direct processing costs within the gross profit calculation. The cost of the raw materials are therefore only reflected against the Baobab powder.

The robustness of the Financial Model is shown by the positive cash flow generation and positive profits from the first year of processing under the base case. The resulting indicators are therefore also very strong with the baseline Internal Rate of Return (IRR) at 31% and the Net Present Value (NPV) at a strong KSh 6,680,493. The sensitivity analysis varying key parameters is shown in the following table:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Base Case | Overall sales price reduction | Bulk volume sold reduction | Price increase to collectors | Bulk Volume annualincrease |
| Baobab powder Baseprice/kg | Average price KSh 1,450 | -10% | 1,450 | 1,450 | 1,450 |
| Overall sales pricechange | 0% | 0% | 0% | 0% | 0% |
| Bulkvolume sold kg | 5,000 | 5,000 | 4,500 | 5,000 | 5,000 |
| Price increase to collectorsKSh/kg | 25 | 25 | 25 | 50 | 25 |
| Bulk volumesold kg | 5,000 | 5,000 | 5,000 | 5,000 | 25% |
| NPV | 6,680,493 | 1,219,245 | 1,871,538 | 1,245,711 | 26,291,831 |
| IRR | 31% | 18% | 20% | 18% | 54% |

The above table shows that the venture is very strong with the various negative parameter changes nevertheless reflecting still a positive NPV while the IRR remains also fairly robust. Pricing sensitivity across the board with a reduction of 10% remains positive as does a reduction in the starting volumes of 10% to 4,500 kg. In contrast accelerating the annual production increase from 15% to 25% leads to a substantial improvement in NPV of almost 4 x while the IRR moves to a very acceptable 54%. Based on the above analysis the Financial Model demonstrates it is extremely strong.

## Future perspectives

As noted, the model is geared entirely towards the Kenyan domestic market with an emphasis on B2B sales. The sales mix in the model is geared towards sales of smaller

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units predominating at the earlier stages although as the success with B2B sales gains hold the, mix moves towards greater sales proportions for the larger bulk volumes. The lower sales price per unit for these larger bulk items is offset by the higher overall sales volumes and the maintaining of actual sales volumes of smaller units albeit at a smaller overall sales percentage. It is believed that this approach is a realistic reflection of what may be expected to happen.

On the other hand CE will be aiming for export sales as the company settles in to volume production of quality products and proves its reliability in operation. The model does not consider exports at this stage – but as prospects begin to materialize then the model can be adapted to reflect this. The reasons for concentrating on the Kenyan domestic market from the outset is to ensure a good stable base for production and sales is established on which a dependable export campaign can be built. Experience elsewhere has shown that early concentration on export sales before establishing good, strong and reliable production can be a mistake whilst dependability on bulk export revenue generation can lead to very much of a feast or famine revenue situation with the attendant risks for collectors as well as the company itself.

It is believed that the Kenyan market, with its relatively sophisticated and growing middle class with higher levels of disposable income will be able to generate a strong base for production.

Nevertheless, seeking export sales when the time is deemed appropriate can help to increase revenue and profitability as well as further spreading the administrative and production costs over higher volumes. At this stage it will be necessary also to seek international certifications – including organic, fair trade, possibly Fair wild as well as quality associated certifications such as HACCP and GACP. Recognition that some or more of these certifications may be needed before exports are generated in CE’s own right will be dependent on the company’s own customer base needs. It may well find for example that one or more of its Baobab powder customers has a need for organically certified powder so as to satisfy its own customer base.

CE recognizes these needs and is prepared to meet them when they arise. It is well placed to achieve its plans and objectives, generate substantial profits and develop a valuable, replicable business through its Baobab operations. In particular:

* CE promoters already have experience within the Kenyan natural products sector, including with Baobab powder and Baobab oil
* Through YYY, the promoters already have extensive experience in working with communities within the Kilifi area including successful promoting and ongoing operations within the sustainable charcoal business
* CE has developed already a nucleus of potential customers for its products on which it will be able to build a regular, dependable customer base
* The Baobab resource base is extensive in and around Kilifi and is very much an under-utilized resource. The communities in the area have expressed much interest in the possibility for involvement with CE – to the extent of committing land and materials for the construction of storage shelters for the baobab pulp. Management of expectations however will be a key component of the exercise.
* The investment plan and associated Financial Model has been built on direct experience of the production process and phased approach adopted by other regional African producers but has also been able to build on learning from their mistakes in aiming to concentrate initially on the domestic markets

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* The company has been able to draw on the experiences of a strong investment team with key skills in a variety of different disciplines. It has also been able to draw on expertise from the Baofood project and associated experts

## Capital expenditure

Detailed Capital Expenditures are included in Appendix XX along with associated specifications and quotations.

## Foreign Exchange

The primary equipment for processing on which the Investment Plan is based is imported. However, the Oil Press is a common Chinese produced model and for which spares are readily available. If however there is a serious foreign exchange shortage that develops then there could be problems in sourcing spares – including the shaft. However this is not expected to be a major problem.

The Penn State University Baobab powder processor is constructed from easily available locally steel products and there is a steel fabrication unit available within the Kilifi boat yard. The machine comes complete with specification drawings. The second and subsequent machines are expected to be locally constructed and again foreign exchange availability is not expected to pose a problem.

With the primary raw material source being locally available and not dependent on any foreign inputs, again this will not be affected by foreign exchange availability. Packaging is perhaps the only major input that would be affected by foreign exchange shortages although the packaging requirements are all locally available or manufactured and comprise common inputs for the Kenyan agricultural sector.

## Risk Analysis

Key potential risk identified and considered in respect of the proposed strategy and growth of CE include:

* **Political risk**. There is a risk that Kenya experiences political and/or economic challenges that could jeopardize the company’s operations. Factional infighting within the political classes is largely tribally based and continues to affect the overall stability of the country. Furthermore, the adjacent ongoing instability in Somalia, and to a lesser extent South Sudan, continues to spill over into Kenya where large populations of refugee and diaspora Somalis reside. This has led to outbreaks of violence and terrorism related activity within major centers in Kenya and instability along the border areas. Kilifi itself is regarded as being relatively free of these problems although the proximity to the Somali border could be construed to be a potential problem. Nevertheless, the CE investors and promoters are all well-established native Kenyans and can be expected to be able to cope well with any such challenges that may arise. Other financiers and investors will need to be able to make up their own decisions on considering their risk profile and up to date information on Kenya.
* **Management risk**. The CE promoters are intending to appoint a strong management team that will be overseen by the investors themselves through the Board of Directors. In this way they will be able to ensure that a seasoned management team that is able to operate in a new venture dealing with raw materials that are somewhat new for formalized operations within Kenya is

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enabled. Close involvement with day to day operations will be maintained by Anthony Maina and the operation has effectively grown out of and will be hosted by the Wild Living Resource NGO base – which in itself has been operating for 13+ years. Recognition has been given up front that a key to success will be the need to develop markets in what may be seen as a new sector. As a result a Market Development Manager at a senior level will be recruited and given the resources with which to develop the markets. Keen management oversight will be maintained also by Anthony Maina as well as Rob Barnett, the latter especially having development key marketing capacity through his company while Anthony’s knowledge of the local Kenyan market for natural products is also very strong.

* **Customer and market risk**. Although currently the market is relatively undeveloped and will need development and expansion through CE activities, it should be noted that success could well prompt “me-too” type competition and resulting pressure on prices and volumes. Although there is more than sufficient Baobab available within Kenya, immediate competition within the Kilifi area could well push up producer prices at collector level. Increased competition at the sales level could also bring pressure on the sales prices – although the Financial Model shows that there is in fact substantial margin within the business to withstand any sustained competitive pressure. Key to CE’s success will be its pole position as the first company dedicated to producing solely for the Kenyan markets as well as developing a strategy of producing quality products on a dependable, reliable and continuous basis – in contrast to perceived competitive operations. Key also will be the ability of CE to build up a diverse customer base where company success will not be dependent on a small number of key customers. Instead the ability to build up a range of smaller customers emphasizing the quality and dependability aspects will be key in establishing its reputation. There will be the need to establish from the outset a target market strategy with identified potential customers and the need to maintain an up to date market knowledge through regular market reviews. CE recognizes this as being a vitally important aspect to its intended success and will take steps to maintain its market base knowledge.