



Bringing the World to Iran Strengthening the Semirom Apple Industry

Executive Summary

Dubai, UAE & Isfahan, Iran | October 2015

Introduction



The **Global Institute For Tomorrow (GIFT)** is a Hong Kong based independent think tank and executive education provider focused on advancing a deeper understanding of global issues. The **Global Leaders Programme (GLP)** is GIFT's internationally recognized, high-impact leadership development programme which seamlessly integrates classroom theory and field-based practice into a two week transformational learning experience.

In October 2015 GIFT conducted a ground breaking leadership programme in Iran. Global executives from a dozen countries applied their business experience and problem-solving skills to create a new business model in the agriculture sector.

At the invitation of local government including the Esfahan Mayor's Office and Chamber of Commerce, participants travelled to Esfahan city and the nearby Semirom region which is famed for its apples. Through field-research, stakeholder interviews and site visits, they gained a better understanding of the key obstacles facing the region's apple industry. They used these insights to propose recommendations for the creation of a new company, the **Semirom Seeb Company**, which would create social as well as financial returns and improve livelihoods among Semirom's apple farming communities.

The following pages are an **Executive Summary** of the business plan produced by the participants and refined by GIFT. This document summarises the highlights and key ideas of the proposal. More detailed analysis can be found in the full report which is available upon request.

The Context

Years of economic sanctions severely impacted Iran’s economy including its agricultural sector. The most vulnerable in Iranian society were the hardest hit and Iran’s smallholder farmers were no exception. Iran’s agricultural sector which accounts for 9% of the country’s GDP and 16% of the labour force faces constraints in terms of infrastructure, technology and expertise, and access to capital and markets.

With the lifting of sanctions in 2016 and an increase in international engagement, the second largest population and economy in the Middle East is well positioned to reap the benefits of international business and investors.

Snapshot of Semirom’s Apple Industry

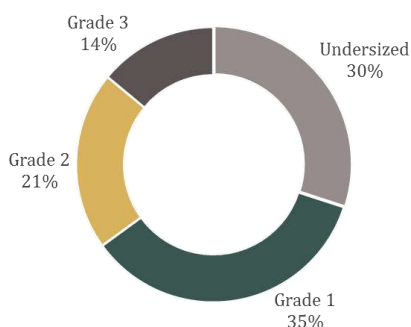


Total apple production in Iran	1.7 million tonnes
Apple production in Semirom	300,000 tonnes
% of arable land in Semirom	12%
% of arable land allocated to apple cultivation in Semirom	90%
Apple varieties grown in Semirom	- Red Delicious - Golden Delicious - Golab
Apple harvest season	June – end September

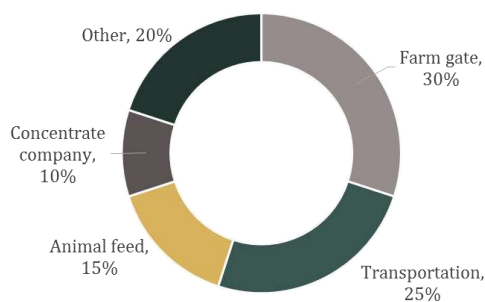
Esfahan Province, located in the Central Plateau of Iran is a key agricultural region. Semirom County is located in the southern tip of the Province. The region is renowned for its apple industry which accounts for 10% of the country's total production.

While the focus in recent years has been on increasing production, the quality of apples is still an issue leading to a low price at the farm gate and up to 30% (~ 90,000 tonnes) of produce either being wasted or under-utilized (used as animal feed or sold to the local concentrate company).

Apple Production Composition in Semirom County



Apples Lost Across the Value Chain in Semirom County (90,000 tonnes/year)*



* Estimated quantities.

Water management is also a critical challenge for apple farmers as parts of Semirom have suffered severe droughts in recent years and the area is still lacking effective irrigation technologies.

The Proposal

The apple product market in Iran is still in its infancy. The current lack of any prominent apple brand in the country and the growing demand for healthier products have combined to create an opportunity for an apple business producing and processing fresh apples and healthy apple products.

There is a real market opportunity for Semirom apple farmers to capture additional value by engaging in local processing. With the support of the Esfahan Chamber of Commerce and the Semirom Farmers Union to further develop the regions apple industry, there is an opportunity for a new commercial entity to lead the process of driving sector-wide improvements.

A new unifying entity, **Semirom Seeb Company (SSC)**, is proposed which will support the development of the Semirom apple industry while contributing to livelihood development for farmers and driving overall positive social impact in the region.



Pure apple products for your healthy life

Unique nature and taste from Semirom
Supporting a healthy lifestyle
Social value created through supporting farmers' livelihoods
Welcoming the world to Semirom

SSC will source, harvest and process apples for sale domestically and internationally; provide necessary investment and expertise to local farmers; and support smallholder farmers by ensuring that they directly reap the benefits of SSC.

The company will work with the government and universities to provide cooperative members with information about market pricing, water management and other agriculture data.

The Farmers Cooperative

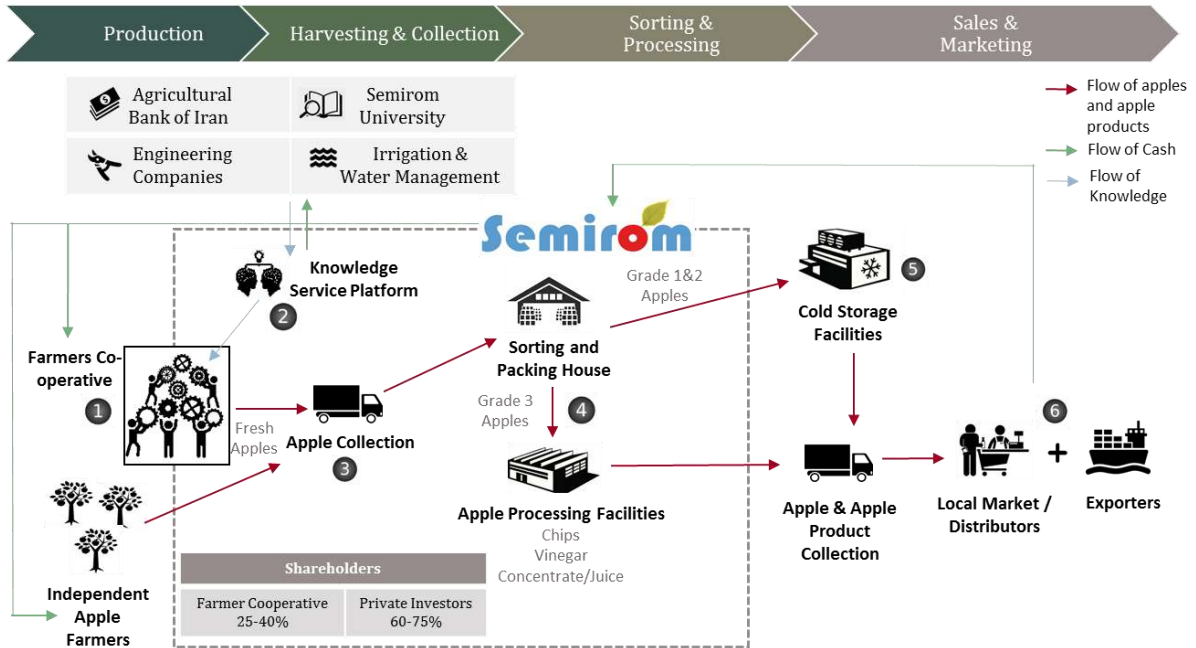
Despite the existence of the Farmers Union in Semirom, lack of effective organisation amongst farmers is a key obstacle to collectively improving the quality of apples and farmer livelihoods.

To address this challenge, SSC includes a newly formed **Farmers Cooperative** into its ownership structure which will allow the company to benefit from direct access to local farmers while simultaneously ensuring that farmers have access to high-quality inputs, technical expertise and investment opportunities.

To ensure alignment of interests, operational excellence and transparent decision making, the members of the Farmers Cooperative will be offered "sweat equity" in the company in exchange for supply commitments.



The Business Model



- SSC acquires apples from Farmer Co-op and independent apple farmers in the region.
- Knowledge service platform established for farmers to gain access to information on best practice.
- The company will own transportation and outsource additional vehicles as needed during harvest season.
- Sorting, packing houses and processing facilities to be owned and operated by SSC in Phase 3. Rental basis during Phase 1 & 2.
- Cold storage facilities to be utilized on a rental basis.
- Apple and apple products to be sold to the local market/distributors and exported.

SSC Shareholding Structure

In order to align interests, ensure operational excellence and facilitate transparent decision making, the Farmers Cooperative and private investors will be joint shareholders in the company.

- Private investors** will be sought who have an orientation to “impact investing” or “patient capital” and who seek to drive social as well as financial returns .
- “Sweat equity” will be offered to the new **Farmers Cooperative** and by extension to individual members, relative to land ownership and total overall production.
- Dividend payments proposed to be limited to 50% of maximum yearly net profits (10% allocated to local community development and the balance 40% for future development of SSC).

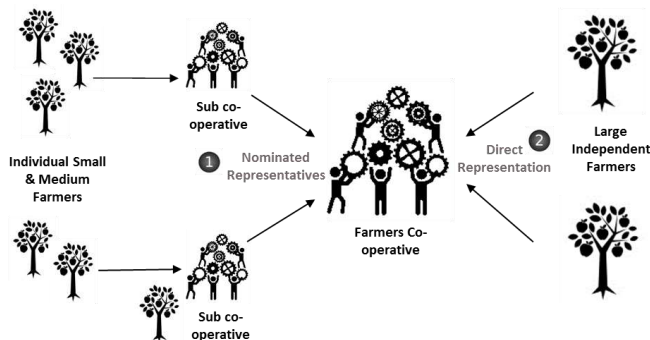


Ownership Structure of the Farmers Cooperative

The Farmers Cooperative will comprise farmers from Semirom County who have voluntarily elected to organize within a mutually beneficial and democratic framework.

It is suggested that the Cooperative be further divided into regional cooperative groups (sub-cooperatives), corresponding to the three primary apple producing regions of the county – Vardasht, Semirom and Padena – in order to optimize pooling of assets and in respect of transport logistics and other local conditions.

The Cooperative will be structured to include farmers with varying plot sizes with the objective of having a minimum of 200 members.



- 1 In principle, each member of the Farmers Co-op will have one vote. Members will be elected to represent each sub co-op.
- 2 Large independent farm owners (those with >10 hectares) are eligible for direct representation in the co-op.

Farmers Co-op membership distribution

- > Small farmers (1 to 2 hectares) – 50%
- > Medium farmers (2 to 10 hectares) – 30%
- > Large farmers (<10 hectares) – 20%

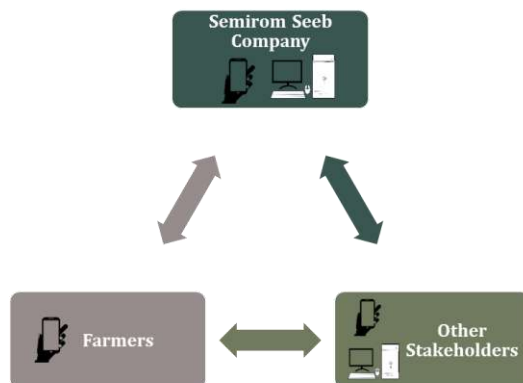
Knowledge Service Platform, IT-enabled

SSC will engage strategic partners to facilitate the transfer of technical advice and support to farmers via a knowledge service platform. Services will be provided to member farmers free of charge.

Coordination with service providers will be handled by SSC and IT platforms will be leveraged to extend the reach and impact of engagements. Services provided through activities including classroom workshops; hands-on technical training; field studies and a demonstration orchard accessible by cooperative members.

Partners for these services will include the Agricultural Bank of Iran, Semirom University Agricultural Dept., engineering companies and others. SSC will work to access donor funding and grants to minimise development costs.

The platform will also link farmers to agricultural partners who can provide them with access to key areas of technical services including orchard and crop management; irrigation and water management; and harvesting.

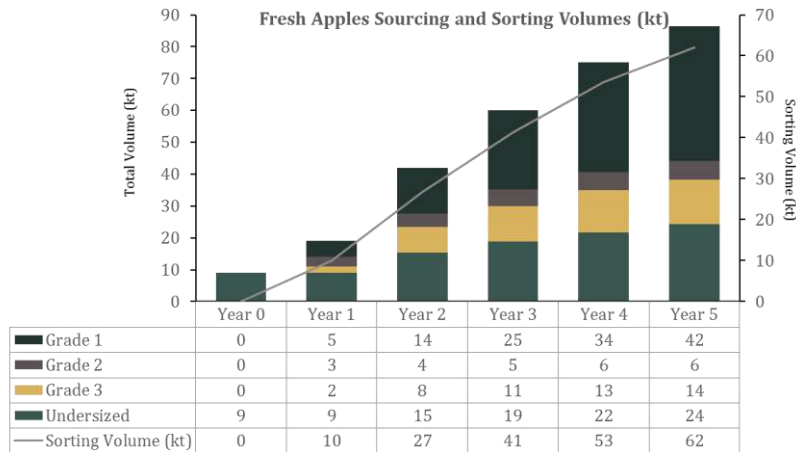


** Underlying assumption that these services would be made available to SSC at minimal cost and in some cases offered free of charge by technical partners and individuals.*

Phases & Business Expansion

Given the growing demand for both fresh and processed apple products in the region, it is proposed that during Phase 1 of its operations, SSC focus on increasing the quantity of high-quality Grade 1 and 2 apples produced in the Semirom region while purchasing Grade 3 apples for the company’s apple chip business. The company would also move towards renting cold storage and additional transportation to help local farmers.

As positive impact of technical support is realized through SSC’s knowledge service platform, overall volume of Grade 1 and 2 apples will increase allowing SSC to secure larger quantities of higher-grade apples each year.



During Phase 2, SSC will expand its product range to include apple vinegar and Phase 3 will include an apple juice/concentrate business. These products are selected in order to meet the expected demand from a growing middle class and tourism sector in the region.

Phase 1

Year 0-5

- SSC to focus on purchasing undersized and Grade 3 apples. SSC to venture into purchasing Grade 1 and 2 apples.
- Set up of apple chips processing and transportation business.
- SSC to rent cold storage facilities and additional transportation as needed during harvest season. SSC to own apple chip processing equipment.
- SSC to focus on marketing apple chips and low volumes of fresh Grade 1 and 2 apples for export.

Phase 2

Year 5-7

- SSC to keep focus on purchasing undersized and Grade 3 apples while increasing the quantity of fresh Grade 1 and 2 apples purchased.
- SSC to set up vinegar processing and packaging business.
- SSC can rent or own facilities including vinegar processing equipment, cold storage facilities and additional transportation as needed during harvest season.
- Increase sales of apple chips and introduce apple vinegar into the local market. SSC to continue driving sales of fresh Grade 1 and 2 apples.

Phase 3

Year 7-10

- SSC to continue purchasing undersized and Grade 3 apples in smaller quantities while increasing the quantity of fresh Grade 1 and 2 apples purchased.
- SSC to set up apples juice/concentrate and new products processing and storage facilities.
- SSC to set up and own processing equipment and ware house. Rent cold storage facilities as needed.
- SSC to continue producing and marketing apple chips, vinegar and juice/concentrate along with high volumes of fresh Grade 1 and 2 apples.

Financial Analysis & Investment Plan

The launch of the SSC presents an excellent opportunity for investors, both local and international who wish to create significant impact in Iran’s promising agriculture sector.

The company requires an initial investment of US\$5.5 million to cover capital expenditures and expenses until profitability is achieved, which is the second year of operations (for the base, best and worst cases).

The model shows that SSC offers investors an attractive IRR between 9% and 19% over a six year period.

- Base Case assumes ~85% of fresh apples and 75% of apple chips sold
- Best Case assumes ~85% of fresh apples and apple chips produced
- Worst Case assumes 75% of fresh apples and apple chips sold

Key Financial Assumptions

Of the total production of apples in the Semirom region (~300,000), it is assumed that SSC will capture the below share produced per year:

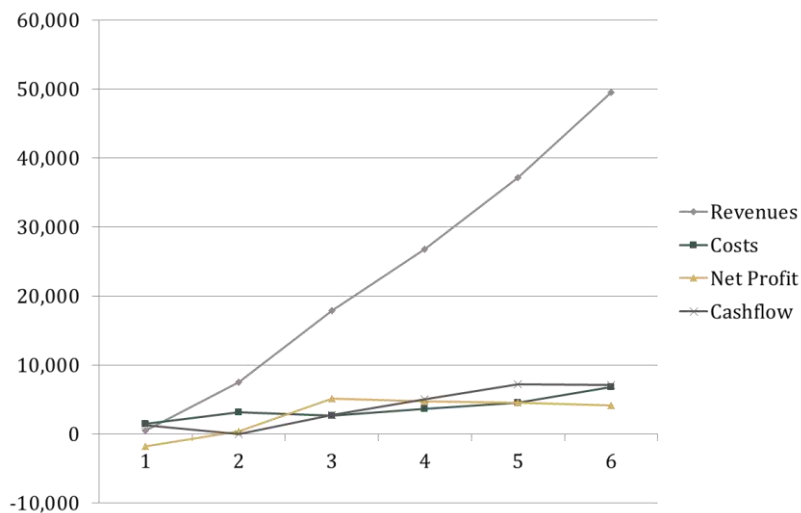
Year	0	1	2	3	4	5
Grade 1 & 2	0%	5%	10%	14%	17%	19%
Grade 3 & Undersized apples	7%	7%	8%	9%	10%	12%

Buying Price (USD/ tonne) of apples:

Grade 1	Grade 2	Grade 3	Undersized
435	145	150	90

Note: Suggested purchase price for Grade 3 & undersized apples based on assumed fair price to farmers in light of SSC value-add to produce packaged apple chips.

Financial Highlights (Base Case)



Policy Recommendations

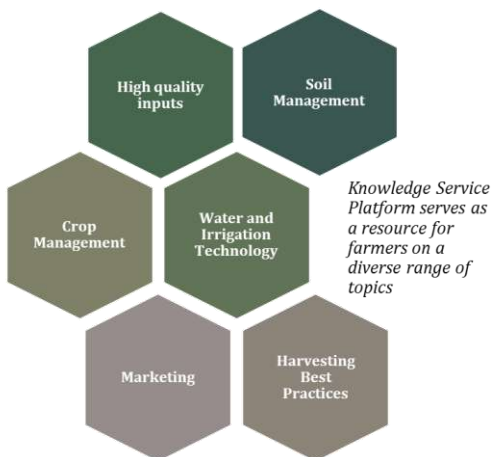
Enabling policy recommendations are suggested to support SSC's initiatives, improvements to the apple sector and farmer livelihoods. These include:

- The establishment of a research “centre of excellence” providing vocational training for farmers in the field of crop and harvest management ;
- Subsidy/tax relief for technical services such as water and soil management and irrigation methods;
- Favorable regulations for improved farmer welfare support such as crop and health insurance;
- Tariff reduction for importing processing equipment and agricultural inputs;
- Governmental support for the establishment of the knowledge service platform.



Social Impact & Community Benefits

SSC is a financially viable business with the potential to have a direct positive impact on Semiróm's apple supply chain, particularly in post harvest where most of the losses occur. This carries huge benefits for farmers, the community and country as a whole.



As SSC is established as a farmer-owned and operated company, overall improvements of the apple value chain will directly benefit farmers as the sector modernizes and becomes more export-led.

The company will have a positive impact in a number of critical areas including efficient utilization of scarce water resources, and sharing of modern apple farming techniques which are less harmful to the environment and health.

The proposed model is adaptable and may be applied in other regions of Iran, as well as to other agricultural businesses.

For more information on the project or GIFT programmes in general, please contact Rachita Mehrotra at rmehrotra@global-inst.com or +852 3571 8204

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