

2.16 AWAWHITI CRESS - ACCELERATION OF BUSINESS EXPANSION

PGF Application		For: Approval	
Applicant:	Awawhiti Trust	Pipedrive ID #	Commercial Information
Entity Type:	Trust	PGF Funding Sought:	Commercial Information
Region	Manawatu-Wanganui	Total Project Value:	Commercial Information
Tier:	2 - Sectors	Co-contribution rate:	Commercial Information %
Sector:	Primary Industry	Funding Structure:	PDU proposed grant funding Commercial Information

We recommend that the SROs:

- a) **Approve** \$90,000 Grant funding from the PGF fund towards the Awawhiti Cress proposal on the basis that funding will provide the opportunity to accelerate expansion plans reducing a 12 – 15 year plan to a five year plan. Expansion will support an additional ^{Com} full time staff and ^{Com} part time seasonal staff. Approval subject to:
- Commercial Information ;
 - Written confirmation from the Recipient that it agrees to actively work with the Ministry of Social Development (MSD), using best endeavours to on-board MSD clients, including the local NEETS cohort; and
 - A schedule of project costs satisfactory to the Ministry.
- b) **Note** the recommendation is a grant of \$90,000. The reduced funding supports the expansion of the existing tunnel house to double the size and will enable profitable trading through the winter months. The expansion will support the planned increase in staff.
- c) **Note** that the project has been scaled back to exclude the development of a staff car park, replacement of vans, construction of a staff lunch room and a second chiller. By changing their cutting days the business can operate on one van resulting in the sale of two vans, releasing funds to the business. By changing business processes a second chiller is not required. Existing staff parking and lunch room although not ideal are adequate.
- d) **Note** that the applicant has self-funded two previous expansions, Commercial Information
- e) **Note** that MPI strongly supports this proposal.

- f) **Note** that all produce is grown for the local market with no exports. The project has been discussed with MFAT who confirm there are no WTO or free trade issues.

Proposal:

Awawhiti Cress is a hydroponic business that has been trading for 14 years, growing a variety of cress related products, situated south of Taumarunui. The business grows: salad cress; “boil-up” cress and microgreens, to customers across the Central North Island, Waikato and as far south as Whanganui.

Awawhiti Cress seek to extend the existing tunnel houses, upgrade existing seed growing area, and convert old stables to a seed house.

Background:

In 2005, the initial tunnel house measured 10mx12m, since then, the applicants have undertaken two extensions to the tunnel houses with total coverage now measuring 1300m² of tunnel housing, producing approx. ^{Commercial Informa} [REDACTED]. The two extensions have been self-funded by the applicant, **Commercial Information** [REDACTED]

Initially a husband and wife team, now ^{Com} full time workers plus ^{Com} seasonal workers. Increasing demand is driving the need for a substantial expansion of the hydroponic infrastructure and business facilities.

Assessment against the PGF criteria:

Eligibility Criteria

This application is eligible for PGF funding.

Productivity Potential

The project will accelerate the delivery of an expanded tunnel house and new business ventures (asparagus, puha and watercress seed). The project will lift productivity for the Ruapehu region and will create employment opportunities in a region that is experiencing population decline.

Policy objectives and regional priorities

This initiative aligns well with the Accelerate25 action plan, priority of land optimisation via high value crops that are value added via manufacturing processes undertaken in the region.

PGF Criteria	Assessment Commentary	Rating (0✓ to 5✓)
Link with fund and government outcomes		
Creates permanent jobs	Will create an additional ^{Com} FTEs from ^{Comme cial In} [REDACTED] by 2022. Based on the scale of the business, the increase of job numbers is considered significant. The business currently employs ^{Com} FTEs and ^{Commerc} [REDACTED] seasonal	✓✓✓

	<p>workers (Sept-March). If this funding request is approved, this will mean the applicants will be able to employ ^{com}FTEs immediately (employing the seasonal workers as FTEs). A further ^{com} employees would be engaged on a part time basis for the rest of 2019, until production is increased, where these positions will become full time in 2020. Commercial Information would be engaged on a part time basis from 2021 as the asparagus and puha operations come into production and this role will become full time from 2022. The applicant would look to employ local people identified through MSD.</p>	
Delivers benefit to the community	<p>All staff currently employed are Māori and this will likely continue as the available work force in the area tend to be Māori. The jobs provide permanent job security and good working conditions. The business has development plans for all employees for example currently working with Philip Haupapa (current FTE) who is working on level 1 – 3 horticulture qualification. The company has employed staff through MSD since 2017. Staff have the potential to learn new skills and training through Primary ITO and hands-on skills e.g. drivers licence.</p>	✓✓
Increased utilisation and returns of Maori asset base	N/A	
Enhanced sustainability of natural assets	<p>There is no waste; all end of life product is fed to stock (and neighbours' cows in summer).</p>	✓✓✓
Mitigation of climate change effects	<p>Hydroponics uses 20 times less water than soil based gardening as the water is recycled. Hydroponics reduces nutrient leaching into the environment. There is complete control over the nutrient balance. The business has a nutrient management plan and has nil waste, as all end of run product is fed to stock and in times of drought or need, the neighbours' cows. Recycled boxes are used for packaging, and are currently transitioning to the use of 100% bio – degradable bags for product.</p>	✓✓
Additionality		
Adding value by building on what is already there	<p>The proposal is to expand the existing tunnel house, develop a two tier growth system for white asparagus, develop the new Puha business and commercialise watercress seed.</p>	✓✓✓✓
Acts as a catalyst for productivity	<p>The proposal addresses strong product market demand.</p>	✓✓✓

potential in the region	The expansion will increase production of high value crops, generate jobs, train and upskill staff.	
Connected to regional stakeholders and frameworks		
Alignment with regional priorities	Yes. It aligns with Accelerate25 action plan, including the priority of land optimisation via high value crops, that are value added via manufacturing processes undertaken in the region. The Central Economic Development Agency (CEDA) supports this project on the basis that they consider this type of innovation and new development impacting positively upon the District's economic diversity, resilience and strength.	✓✓✓
Support from local governance groups (incl. Councils, Iwi/Hapu)	Well supported by local governance groups including Ruapehu District Council, CEDA and Central Districts Primary ITO. Support letters are attached - see appendices.	✓✓✓✓
Governance, risk management and project execution		
Robust project management and governance systems	The proposal's project management and governance systems are at satisfactory level. Meetings have been held with the applicant.	✓✓✓
Risk management approach	Well considered risk management approach, with practical mitigation approaches.	✓✓✓
Future ownership / operational management	No change.	✓✓✓✓
Analysis of the benefits and costs		
Benefits: The creation of ^{Com} FTE Create jobs and support the development of employees' skills. The current business approach includes development plans for all employees, for example ^{Commercial Inform} FTE who is working on level 1 – 3 horticulture qualification. The company has employed staff through MSD since 2017. Staff have the potential to learn new skills and training through Primary ITO and hands on skills e.g. drivers licence.		
Costs: \$90,000 grant to the applicant		
Financial Analysis		
The 31 March 2018 financial accounts records total assets of \$ ^{Commercial Inform} and liabilities of \$ ^{Commercial Inform} . Shareholders equity stands at \$ ^{Commercial Inform} ^{Comm} %). Commercial Information ^{Commercial Inform}		

A revised project budget has been provided and a 5 year forecast budget.

Both have been reviewed and are considered appropriate.

Funding Arrangements

With the restructure in the expansion plans reducing the request from the PGF to \$90,000 funding by way of a grant is considered appropriate for the number of jobs created.

Due Diligence and Ownership

DD is being undertaken.

Risk Assessment

The key risks to the PDU and proposed mitigations of this investment are as follows:

#	Risk	Mitigation approach	Likelihood of the risk occurring if not mitigated
1	Unreliable seed availability from the Northern Hemisphere.	Successfully growing own seed with the view of becoming independent of seed merchants and adding another source of revenue.	Medium
2	If the contractor's price is not accurate, then additional funding may be required.	Firm quotes and face to face meetings. Dealing with reliable companies that they have used in the past.	Low/Medium
3	Competition from other businesses growing watercress.	The barrier to entry is the level of investment required to operate this type of business. The applicant has developed well established relationships with customers. Closest competition is a business based in Te Puke, Bay of Plenty.	Low

Consultation undertaken or implications:

MPI

Awawhiti Cress is well positioned to undertake the expansion of the business to meet market demand. This will result in higher levels of production taking place, along with sustainable jobs being created. The nature of the business is a closed cropping system, which uses water more efficiently than more traditional growing techniques, along with zero environmental effects resulting from this type of activity. These factors fit well with the objects of the PGF. The Application is supported.

Supporting proposal:	Yes
Appendices:	Yes – Applications and supporting letters are as annexes
Author of paper:	NH, Investment Director, PDU Investment Team

PROACTIVELY RELEASED