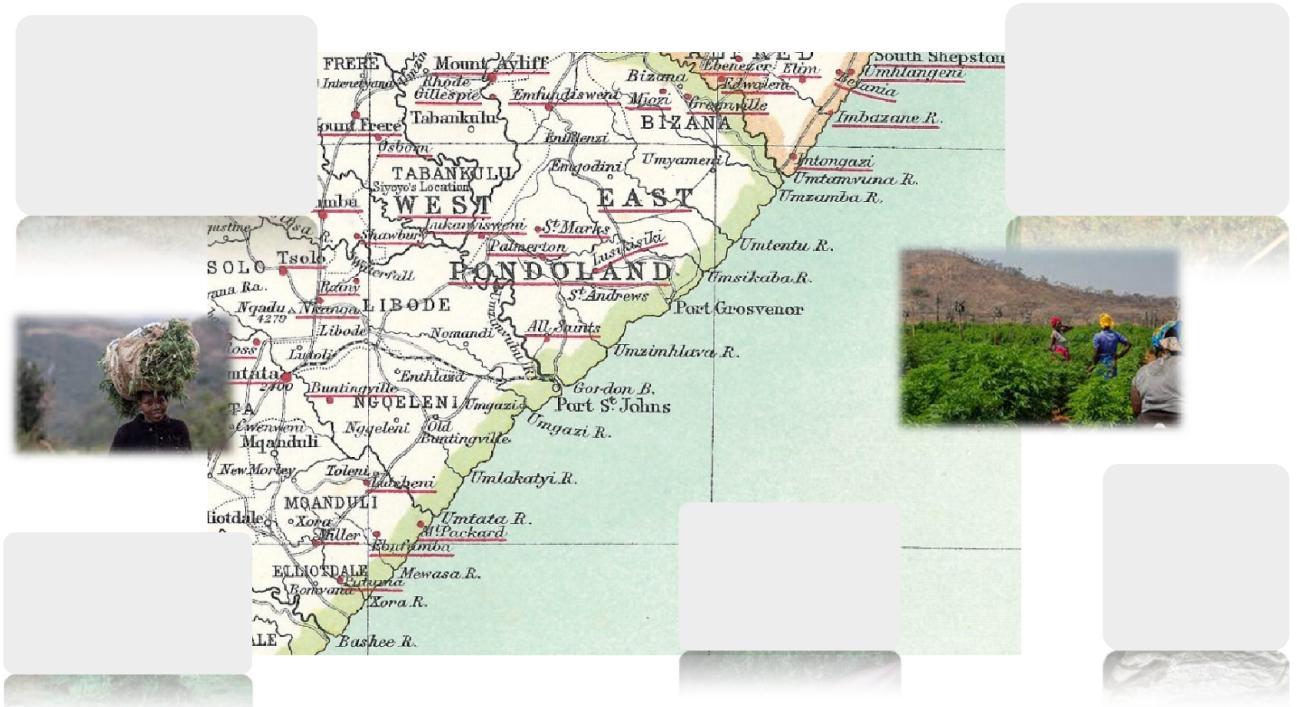


# Development of the Hemp and Cannabis industries in South Africa

## Pondoland Tribal growing operations

March 2022



*"Cannabis is the 'green gold' of the Pondoland region and government should ensure it is developed to benefit the people who have been cultivating and trading it for more than 100 years, to make ends meet."* Chief Gcinilifu Mdutshane of Xhopopo village in Flagstaff, representing AmaMpondo King Zanozuko Sigcau @ the Stakeholder Engagement Forum for the Cannabis Bill for Private Purposes consultation.<sup>1</sup>

*"There is a perception that by introducing this Bill the government want to take away the only thing that we have, the gold of Pondoland. Our hope is that this perception is a myth and that government want to develop this industry and ensure wealth creation".*

## **Historical turning point**

The new dawn so long promised is about to arrive in Eastern Pondoland, the traditional home of dagga in the Eastern Cape.<sup>2</sup>

Ntabankulu Mayor, Tsileng Sobuthongo recently led a government and media contingent journey through the hidden fields and secret gardens of dagga plantations in Madwaba Village. Gone are the days when producers of weed in these parts fear police sirens and raids.

The World Health Organisation ranks South Africa as one of the top three countries producing cannabis illegally and estimates production in the region to be in excess of 2,500 tons.

*"The hemp and cannabis sector has the potential to create more than 130,000 new jobs,"* Ramaphosa told the nation in his 2022 State of the Nation Address. "We will be streamlining the regulatory processes so that the sector can thrive and be competitive with countries like as Lesotho."

Local people in Emakesibeni, KwaBhaca, Mbizana and Ntabankulu have been growing and systematically drying cannabis for hundreds of years. In many villages, cannabis fields are found deep inside natural forests and valleys that can only be accessed using donkeys.

The people are regarded as among the most skilled producers and are ideally positioned to take up formal employment as the industrialization of hemp and cannabis gains traction.

Mayor Sobuthongo confirms that her municipality has taken it upon itself to organise the rural producers to help them to get licenses for legal production of cannabis. "Our goal is to not transport raw cannabis to other areas but rather process it locally for the industrialisation and upliftment of the regional economy. We want to attract cannabis investment into our town by partnering with government and private sector and appeal to those funders to get involved and invest in Ntabankulu," she said.

<sup>1</sup> <https://www.facebook.com/563746100811370/posts/cannabis-is-the-gold-of-pondoland-by-thozi-kamanyisanathe-cannabis-is-the-gold-o/1024838081368834/>

<sup>2</sup> <https://scrolla.africa/letter-from-mt-frere-green-gold-excitement-rocks-pondoland/>

## **Formalising the informal trade**

David Davies, of 1820 settler stock and as the CEO of Izenzo, has continued the tradition of developing the Eastern Cape and its people and has facilitated the informal trading of cannabis products for the last 25 years. Particularly in the Pondoland region which extends over 10,000,000 ha and is governed by the AmaMpondo King, Zanozuko Sigcau.

This collaboration has been mutually beneficial and has seen turnover grow to \$3m p.a. A satisfactory complement to the Izenzo core business of valorising the Eastern Cape region through macro-economic development initiatives in the key areas of property development, tourism and transportation, amongst others.

The rich experience in the informal development of the cannabis industry has enabled Izenzo to accurately identify the challenges associated with the need to reform the out-of-date legislation and the monopolistic nature of the SA market; particularly in the pharmaceutical sector where large companies are moving into the cannabis market and are ring fencing their interests with the licensing authorities to monopolise claims in these 'fields of gold'.

### **The Strategy**

As is the nature of the Izenzo business, these unique challenges present equally unique opportunities to discover and maximise the value in the 'underlying assets and challenges' – the people, the culture and the business.

This is the essence of valorisation that Izenzo inculcates in its strategic partnerships that unlocks the wealth in an equitable and sustainable manner and maximises the potential for exponential value realisation.

As a trader, David Davies appreciates the opportunity afforded by the presidential mandate to establish the hemp and cannabis industry and to build on the 25 years' experience in developing the Eastern Cape region.

The strategy is to formalise the informal market by establishing a commodity trading platform to initially focus on trades in high-value hemp and cannabis products as well as the associated carbon credits.

This trade facility will catalyse the development of the hemp and cannabis industries, **globally**, and afford countries like South Africa the opportunity to fast-track their socio economic upliftment programmes and blueprint this model for economic development in other emergent economies.

It also provides the foundation for allied Fintech initiatives.

## Pondoland Hemp and Cannabis development

As indicated by Chief Gcinilifu Mdutshane, representing AmaMpondo King, Zanozuko Sigcau, the Pondoland Tribal Authority welcome the opportunity to develop the hemp and cannabis industries in the region and to advance the working relationship with Izenzo and the local authorities to achieve this objective.

A Special Purpose Vehicle will be formed and will implement the Sustainable Agriculture Value Chain (SAVC) framework to setup and manage these programmes. The schematic below outlines the elements of the Hemp / Cannabis value chain to be enabled for the Pondoland Tribal Authority and illustrates the rich suite of supporting functions to be facilitated.

The initial programme will focus on the export of high-value hemp / cannabis oils to establish the practices needed to align the various stakeholders into an immediately profitable market. It needs to be pointed out that the Hemp and the Cannabis cannot be grown in close proximity to one another due to cross pollination that renders the cannabis economically neutral.

Hemp will be grown on the Northern and Western sides of Mtata and the Cannabis would be provided a safe haven in Pondoland for growing in isolation, on the Eastern flanks of Mtata.

It is understood, and scribed hereto, that the Cannabis market enjoys some legality of use but little legal conformity to encourage the industry initiatives to adopt aggressive marketing campaigns, locally and internationally.

In order to achieve this the Izenzo trading platform will provide off-take initially for the hemp carbon credits and industrial application and in due course, the cannabis, after legal engineering is completed.

During this process SAHPRA will move from the Dept of Health to Agriculture and CBD THC content will move up to 2% showing the eventual intersect with Hemp & Cannabis from a legal point of view.

Key aspects of the programme include:

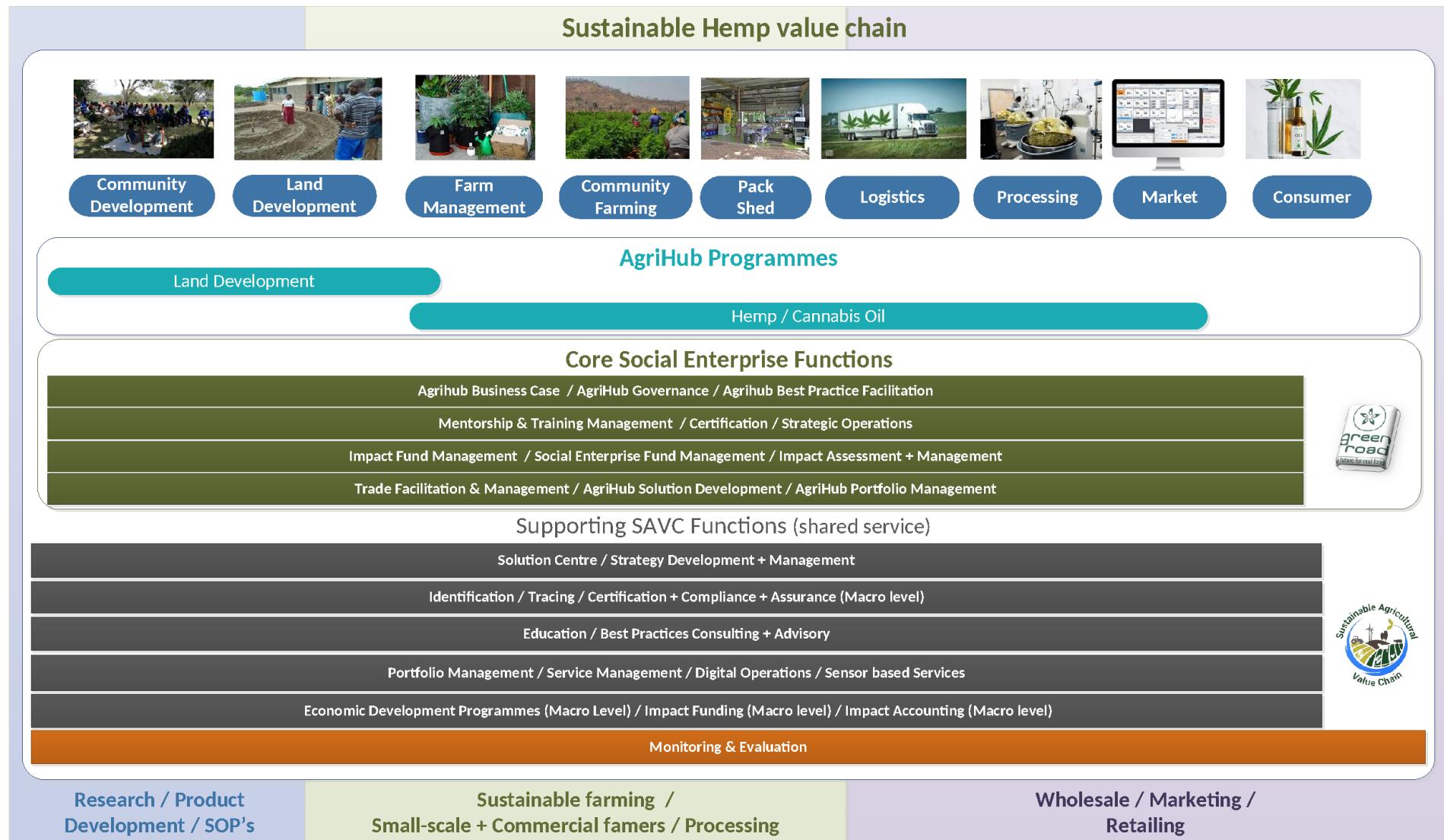
- Establishing the business leadership and operations
- Formalising the growing operation through the establishment of the AgriHub model
- Aligning the research operation managed by the Eastern Cape Department of Rural Development and Agrarian Reform (DRDAR)
- Aligning the manufacturing and production process managed by DRDAR
- Managing the digital operations, including traceability and compliance
- Establishing the trading platform
- Accrediting the hemp / cannabis operations for carbon sequestering.

Market research conducted by Zion Market Research and published in their report sub-titled “Cannabis Oil Market by Type and by Application, 2018–2025”<sup>3</sup> valued the global cannabis oil market at approximately USD 147 million in 2018 and projected that it would generate around USD 2,468 million by 2025, at a CAGR of around 49.5% between 2018 and 2025.

3 Cannabis Oil Market by Type (Organic Cannabis Oil and Non-Organic Cannabis Oil) and by Application (Recreational and Medical): Global Industry Perspective, Comprehensive Analysis, and Forecast, 2018–2025”.

Cannabis oil contains two main components: cannabidiol (CBD) and tetrahydrocannabinol (THC). Both components have high therapeutic potencies and are widely used for medicinal purposes. In 2018, the World Health Organisation (WHO) highlighted that cannabidiol helps in treating symptoms related to Parkinson's disease, Alzheimer's, multiple sclerosis, anxiety, pain, depression, diabetic complications, and cancer.

## High-Value hemp / cannabis oil programme



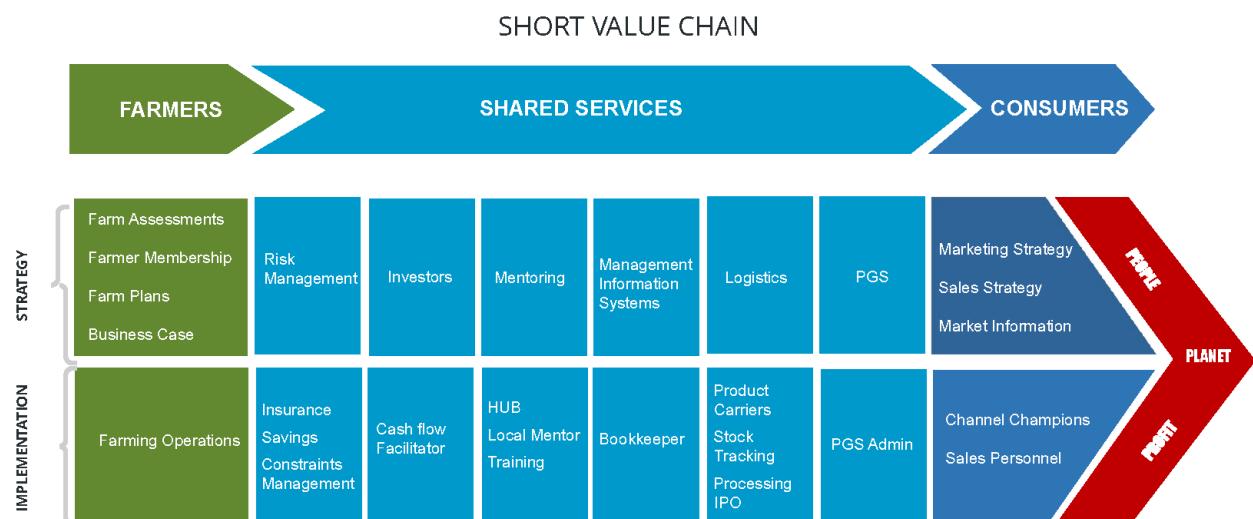
## AgriHub Programme

An economic development programme focused on the social enterprise and facilitating a regional level circular economy is established on a hub-and-spoke model where the AgriHub centralises and co-ordinates operations geared to benefitting the small scale farmer.

The following illustrates the Green Road economic development framework that is orientated to support micro and small scale farmers operating in a co-operative / community centric manner.

Key focus areas include:

- Comprehensively addressing the Sustainable Development Goals (SDGs)
- Creating sustainable paths out of poverty into economic independence
- Facilitating sustainable agricultural land practices
- Ensuring food security
- Developing short-value chains
- Developing farming operations for industry specific hemp / cannabis products



## Research and Manufacture



The Eastern Cape Department of Rural Development and Agrarian Reform (DRDAR) will install four mobile laboratories in strategic locations to facilitate the research associated with the production of the hemp / cannabis oils and the compliance with the Standard Operating Procedures (SOP's) governing the operations.

DRDAR will also optimise the use of the mobile labs to distil the oils according to the international standards set. Initial production planning is for 57 litres per week per lab / distillation unit.

## Trade platform

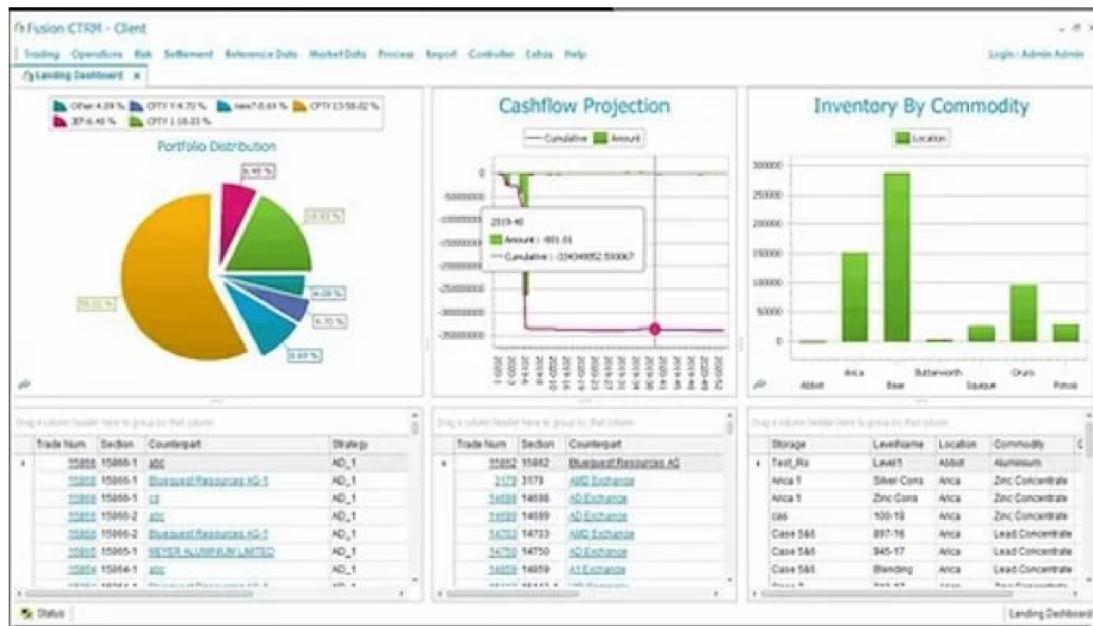
Trading will be facilitated by an offshore listed entity that will build and operate the commodity trading platform to provide affordable access to international markets for producers (sellers) and buyers.

Izenzo will concentrate on effecting the market establishment and will facilitate the transition of the production and selling sides to the respective lead entities.

An immediate objective of the trade facility is to ensure forward sales of 'product in the ground' to lock in the latent value for both the producer and the trader.

Producers and buyers will immediately have access to a virtually free window on global trade in addition to the pervasive global marketing of the underlying Trade Platform facility (Fendahl) + social media and the global network of traders in countries ranging from Canada, USA, Brazil, Australia, Israel, Macedonia, to Spain & Poland.

The newco trading entity will establish a principal trading account for the equity partners.



## Digital Operations

The core functions of the Sustainable Agriculture Value Chain (SAVC) platform will be phased in to support the relevant aspects of the Hemp / Cannabis operations as needed.

The architecture overview illustrated below provides a holistic view of these functions with respect to the AgriHub model, implemented according to the Green Road economic development model.

Key components of the SAVC digital operations include:

- Farm Planning / Management
- Sector Demand and Supply Management
- Social Knowledge Sharing
- Quality and Regulatory Compliance
- Fund Management
- SAVC 'freemium' app
- Customer Experience Centre
- Rural Broadband Connectivity
- Sensor based / precision farming services



## Business Operations

The establishment of a unique entity to develop the hemp / cannabis markets in the Southern African region presents the opportunity to achieve the broad objectives of the 4<sup>th</sup> Industrial Revolution, as encapsulated in the World Economic Forum (WEF) definition;

"The Fourth Industrial Revolution is about more than just technology driven change; it is an opportunity to help everyone, including leaders, policy-makers and people from all income groups and nations, to harness converging technologies in order to create an inclusive, human centered future. The real opportunity is to look beyond technology, and find ways to give the greatest number of people the ability to positively impact their families, organisations and communities." <https://www.weforum.org/focus/fourth-industrial-revolution>

The SPV will leverage the best practices of its principals to meet and comprehensively address these challenges.

Core services of the business framework are highlighted in the schematic below to illustrate the scope of the initial business operations required to manage the initial hemp / cannabis value chain programmes. These include:

- Strategy and Governance, centred on unlocking the latent value ~ valorisation.  
In Pondoland this entails;
  - the centuries-old traditional practices associated with cannabis growing and trading
  - harnessing the history of Pondoland and its people
  - aligning the development of the region with the economic potential
- Solution Centre, creating the meeting place for stakeholders to collaborate in developing unique solutions for the opportunities and challenges identified
- Portfolio Management, governing and managing the range of projects and programmes
- Service Management, co-ordinating the service operations.

