

THE MOZAMBIQUE HONEY COMPANY

PURE HONEY FROM A FAIR BUSINESS

Author: Martinus (Tiny) Ruijten

Country: Mozambique

Sector: Agriculture / NTFP – honey and beeswax

"I want to do something with Honey". Starting my second posting in Mozambique in 2009, I had just renewed the acquaintance of André Vonk; a Dutchman who many would dub, "a character".

Since I came to know North-western Beekeeping in Zambia, 20 odd years ago, I had always wanted to "do something with honey", so it did not take me long to agree to the venture. Looking back, it is amazing how far and how fast we went in just two years.

CHALLENGE

Mozambique has vast forest areas and woodlands, where pesticides are rarely used, making this a country with potential to respond to a growing global demand for organically produced honey. However, so far, lack of investment in building knowledge and producer organisations, low quality of produce and lack of access to markets meant that the opportunity to transform livelihoods through the honey trade was being missed.

The local formal market is dominated by imports, while the bulk of the local production only reaches the informal market channels. The sector is heavily dependent on traditional practices and challenges abound, like: poor infra-structure; remote locations; low participation of women and of youth; low entrepreneurship; limited market intelligence; little involvement of private actors, absence of financial services; insufficient technical /managerial capacities; poor coordination at all levels; no application of standards in quality assurance.

Entrepreneur Vonk identified a market opportunity, when noticing the large quantities of honey sold on the road side, with a huge gap between farm gate and retail prices. He also wanted to enter into a more equitable and long term relationship with small producers, by starting dealing in a commodity that would allow for this type of a model.

Experience in other African countries shows that honey production and trade can be a highly profitable activity, both for the private actor and for the communities; while contributing to more a sustainable agriculture.

The Mozambique Honey Company (MHC) is front runner in developing the local beekeeping sector; through professional processing, packing and marketing of honey, supporting capacity building of small holder beekeepers and their representative institutions; technical training; appropriate production technology; provision of market access to local markets (high-end outlets but also *bottom-of-the-pyramid* consumers), while contributing to pollination of food crops and conservation of forests.

*The Mozambique Honey Company engages with poor Mozambicans in their role of **consumer, supplier, distributor and worker.** Beekeepers are organised to take up their role as **shareholders***

CLIENTS

André Vonk, owner of V&M Grain (an agri-commodity trading company) teamed up with Andrew Kingman of Eco-MICAIA (a social enterprise, working to create inclusive businesses and market opportunities for communities) as trustee for the beekeepers; where both parties are represented on an equal footing. Once the criteria are met, these shares will be handed over to the UCCN (the producers' APEX organisation).



METHOD / SNV INTERVENTION

In 2009, in the absence of a functioning system of commercialisation, SNV started its intervention *in the middle of the value chain*, by giving Business Development support to the MHC. We have been involved right from the start and SNV is an active member of the Steering Committee, which oversees the day-to-day running of the enterprise.

Over time, the Impact Investment Advisory Services varied in scope and in intensity and included advise to MHC; business plan development; finance brokering (resulting in a first equity deal for SNV Mozambique), Value Chain analysis (incl. study visits to Zambia, Zimbabwe, Ethiopia); producer group strengthening; hand on support to PR and marketing; trust building between partners, and facilitating a 'fair' model of producer relations. A network of LCBs is being engaged to train 'Bee Promoters'; build capacity of associations and support their legalisation.

There is increasing momentum towards collaboration in the sector and government is starting to take beekeeping serious again. SNV is leading the process of creating a National Honey Council, representing small producers and the few processors/packers with a view to creating a platform for joint action and engaging government in a policy dialogue.

OUTCOMES



The MHC is a unique business venture that is making a big contribution to the promotion of Inclusive Business in Mozambique and is attracting interest from a wide range of parties.

- o Its business plan won the 2010 national Bid Network "Nature Challenge" award and was a finalist at the world Bid Network event;
- o Beekeepers are producing high quality combed honey;
- o MHC is marketing a highly profitable product, that will result in an economically viable process with profits of up to US\$ 1 m. per year;
- o Beekeepers have their voices heard and become shareholders in a fast growing enterprise.

Although the company is only in its first year of operations, quite some progress was made: it distributed 1,000 timber beehives; trained 60 extension workers and 50 bee-promoters and bought 60 tons of combed honey. The warehouse and processing plant are finished; processing, bottling and packaging are in full swing.



The honey passed laboratory tests by a UK firm and is sold in attractive glass jars with quality labelling and packaging, that sets it apart from the few local brands and can easily compete with imported honey. The reception by wholesalers/retailers has been very encouraging.

A pilot of marketing single-use sachets in the informal market has started. Existing contacts with a Japanese importer are being reactivated to explore options for export.



The LCB contracted by SNV is responding to the interest in beekeeping of an increasing number of actors, by facilitating collaboration agreements and coordinating the creation of a business model that is fully aligned with Fair Trade and Organic standards. Especially were it concerns the establishment of the umbrella organisation UCCN, the shareholding and management structure, traceability systems and, most importantly, relations between the company and producers.

Cash flow	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
forecast	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Kg's sold	100,000	240,000	360,000	560,000	800,000	800,000	800,000
Total Revenue	611,300	1,467,120	2,200,680	3,423,280	4,890,400	4,890,400	4,890,400
Total Costs	604,502	1,125,949	1,564,492	2,289,895	3,199,980	3,160,380	3,160,380
Net Result	6,798	341,171	636,188	1,133,385	1,690,420	1,730,020	1,730,020

IMPACT

The company is traversing, what some practitioners call '*the valley of death of SMEs*', where start-ups like MHC risk extinction because of lack of funding. There are now clear signs that it is approaching the other end of the valley, as it is negotiating with two equity funds for participations of US\$ 200k each. The *Catalytic Fund* earlier already committed \$ 50k.

At full capacity, at least **5,000 rural families** will be having significantly and sustainably improved incomes and livelihoods, through sale of **US\$ 1 m. worth of honey**, and creation of employment in related processing industry for **20 employees** and a yet unspecified number of **resellers**.

Local carpenters make the beehives and production of smokers and protective clothing will stimulate the local economy. In this way, farmers are enabled to gradually enter into a modern beekeeping business; while progressively abandoning their traditional hives and ways of working.

Tough market conditions mean that the costs for **transport, communication, training, contract enforcement and quality control** and can easily eat up profits in inclusive business models

SUSTAINABILITY

The UNDP report "*Creating Value for All*" describes five basic strategies for finding solutions to market constraints and create a sustainable business model. Applying these strategies to the case of the MHC leads to the matrix included in the annex.

The main challenges will be to find solutions to pressing problems like keeping the transaction costs down and improving the quality even further. In the early stages, the high cost of procuring combed honey is justified to assure quality control, but this will be increasingly unsustainable as the volume of trade and numbers of beekeepers grow.

For the time being, most of the honey is coming from bark hives and the company is helping thousands of beekeepers to harvest honey in a hygienic way; without harming the bees. The traditional burning of grass to chase away the bees can lead to traces of smoke in the honey, making it unsuitable for export.

This underlines the need for training in proper hive management and hygienic harvesting techniques to improve quality. Training and capacitating 5,000 producers, is particularly challenging because of their low organisation level. Considerable grant funding over a prolonged period of time is required to support their capacity building.

High interest rates make it difficult to finance the equipment, like hives and protective clothing. However, without a rapid uptake of modern hives, the project will not be able to deliver on its environmental aims.

Government will be lobbied to implement and enforce existing policies and regulations, mainly with regard to the quality assurance of honey and create stimuli for small holder production.

LESSONS LEARNED

This project was the first of its kind (starting before SNV MZ embraced IB as the approach), and the advisor had to assure a steep learning curve, both on the general methodology and the tools to be used, as well as in regard the type of facilitation that SNV wants / has to play. Experience will tell whether it is enough for SNV to limit itself to the role of pro-poor advisor, or that a more active engagement is needed.



Although in this case, the three partners work together exceptionally well; it is still possible that potentially conflicting interests and diverging corporate cultures can come to the fore, now that the business entered into operations and more investors will join. This is not very likely though, considering what an experienced business consultant decided to write to us: *"In a place and time where NGO and donor interventions are under the spotlight in terms of results and impact, the relationship between V&M, SNV and Micaia provides a wonderful example of how such a relationship can work and deliver results."*

In others settings, this convergence of forces might not be as easily construed and maintained, as the advisor might lack the mandate (formal, or based on trust and respect earned) to mediate the balancing act between profitability and pro-poor impact.

The development of the business model was a highly interactive and participatory process, where the results of extensive consultations; feedback received, a.o. during business plan competitions; the findings from study tours, surveys, meetings with experts and literature study and other info were validated and fed into the final model for the business and the support structure.

The team picked up some important learning points, early on in the process, that significantly altered the setup of the project, like: (a) focus on the local market, and particularly on the bottom of the pyramid; (b) the need for alternative materials for hives, to lower the investment for the beekeeper; (c) the decision to only procure combed honey, to assure quality and (d) the need to set up an elaborate support structure for capacity building and technical training of beekeepers.

This particular, very inclusive, business model will in itself not be easily replicable to more competitive value chains, characterised by multiple intermediaries, suppressed margins and fluctuating world market prices. **Its greatest value probably lies in building the case that such an enterprise is viable in the Mozambican context.**

It is too early to draw definite conclusions about its 'replicability', but some important building blocks of success can be identified: (a) a committed private actor with a long term view, willing to invest own resources; (b) a willingness to experiment, learn and adapt the planning, but firmness in results orientation on the triple bottom-line; (c) an effective partnership between non-traditional players (in this case: a commodity trader, a social enterprise and an NGO) with complementary skills, resources, assets and networks; and (d) an approach that stays close to well-known and tested business models (in this case the buying of agro-commodities directly from small holder farmers, using existing knowledge and infra-structure like the grain depots of V&M).

Inclusive businesses can expand in three directions: through broadening, widening and deepening. MHC plans to do all three. (a) *Broadening* by expanding to Sofala and Zambézia provinces, in order to meet the target of 500 Mt produce by year 5. (b) *Widening* by actively pursuing market options for other NTFPs to explore economies of scale and *Deepening* by starting to deal with (emerging) commercial beekeepers.

MoU	V&M Grain / MHC	Dec 2009 – Dec 2011	
Team Composition	Advisory Staff	2	202 pp days
	LCBs	3	81 pp days
	Consultants	2	18 pp days
Resources program	Euro 36.037		
O/O Measurement	Dec 2010 satisfactory		

REPLICABILITY / UPSCALING



STANDARD DATA

Growing Inclusive Markets strategy matrix

the case of the Mozambique Honey Company



		Strategies				
		Adapt products and Processes	Invest in removing market constraints	Leverage the strengths of the poor	Combine resources & capabilities with others	Engage in policy dialog with the government
Constraints	Market information	▶ marketing strategy: jars for formal; sachets for informal market	▶ price incentive for quality honey	▶ (in future) price negotiations with UCCN	▶ SNV VC knowledge	
	Regulatory environment		▶ promote enforcement of honey quality regulations ▶ laboratory facilities	▶ establishment of producer organisation UCCN	▶ creation of Multi-stakeholder platform;	▶ creation of National Honey Council
	Physical infrastructure	▶ Manual processing of honey in controlled environment;	▶ <i>casas de mel</i> for pre-processing; ▶ sales via street vendors	▶ use of local materials for low-cost hives	▶ use of V&M infrastructure ▶ TCT: training and hives	
	Knowledge and skills	▶ purchase of combed (unprocessed) honey to assure quality;	▶ training of beekeepers on hive management & post-harvest treatment	▶ upgrading of most promising honey gatherers / beekeepers; ▶ introduction of transitional hives (KTBs)	▶ Micaia's knowledge of community partnerships ▶ IAC developing training materials	▶ training of district extension workers to create buy-in
	Access to financial services	▶ leasing of hives	▶ business skills training for associations ▶ (in future) use of mobile and SMS banking	▶ (in future) promoting savings by associations	▶ use of existing MFIs and NGOs for credit provision	▶ create awareness of beekeeping benefits; ▶ facilitate access to District Devlpt Funds

Source of table: UNDP (2008) Creating Value for All – Strategies for Doing Business with the Poor

See for more info: www.mozambiquehoneycompany.com

