

**“An Initiative in Combining Rural Development with Private Enterprise in the Honey Sector through shared ownership with Producers”**



## **Executive Summary**

**Funding and Assistance Memorandum for Integrated Honey Production in Mozambique's Central Provinces which combines Private Sector and Communal Resources to harness the full potential of the nascent Honey Sub-Sector.**

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**Prepared by RDI, Limitada**

**Financed by:**

**V&M Grain & SNV**

**Moçambique**

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**Project Promoter**

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[premiermilling@tdm.co.mz](mailto:premiermilling@tdm.co.mz)**Industry**

Sub-Sector: Apiculture

Sector: Agriculture

**Development stage**

Start up

**Year founded**

2010 (To be registered)

**Funding Opportunity (US\$)**

1. **200k** – *Commercial Loan* to finance company start up.

2. **40k/yr** for 3 years – *UCCN Grant* to finance start up.

3. **750k** – Peak demand, *Hive Loan overdraft facility*.

4. **75k/yr** – Training *Grant-10 yrs*

**Average Price**

CIF Japan - US\$7.36/kg

**Year Hives Yield Revenue**

1	10	40T	\$295k
2	20	120T	\$883k
3	30	240T	\$1.77m
4	40	400T	\$2.94m
5	50	500T	\$3.68m
6	50	600T	4.42m

**Existing Debt**

\$0

**Existing Investors**

Promoter: US\$15k to date

**Investment Indicators**

IRR: 39%(4 years)

NPV: US\$2.6m (10 years)

**CONCEPT**

A public / private / community co-operation which seeks to harness appropriate resources to bring together a high volume, high quality honey export project for the benefit of the private company, the community and the government.

**OPPORTUNITY**

On the local supply side, there exists in the central provinces of Mozambique, an active small scale honey industry that services the local markets with relatively low quality honey due to lack of exploitation of appropriate technology. On the other hand, worldwide demand for high quality honey is growing in the face of major production challenges. The worldwide demand for high quality organic honey is expected to grow substantially over the foreseeable future and fewer and fewer countries, including traditional honey producing countries, are equipped to meet the demand due to inorganic agricultural practices and the resultant decline of honey bee populations combined with worldwide deforestation problems.

The project promoter and team intend to work in partnership with local small scale producers to exploit the growing market demand by developing an internationally competitive business and playing a key facilitation role in the removal of all bottlenecks in the value chain.

**SOLUTION/PROJECT OVERVIEW**

The project aims to produce high quality honey in the small scale sector for processing by the private sector using appropriate and up to date technology. Product will be marketed into niche top range local, regional and international markets as organic honey. Product diversification will include making use of wax and potentially pollen. The project will service an international demand that is growing in the face of extreme production challenges as a result of honey bee disease and deforestation.

The company will pursue a business model which incorporates the community in which it operates to facilitate economic benefits for producers and the company alike. To this end, producers will have the opportunity to become shareholders in the processing and marketing company by way of participation in district co-operatives which will become members of an overall co-operative that will represent the producers in the company. The approach to training will incorporate a model that facilitates benefit for artisans as well as producers; for example in the manufacture of bee hives and smokers.

The processing and marketing company will be made up of two shareholding categories, 50% for private sector investors and 50% reserved for producers by way of a proxy who will hold the shares until the umbrella producer co-operative, known in the interim as UCCN, (União das Cooperativas de Mel do Centro e Norte de Moçambique) fulfils pre-agreed conditions.

The purchase of hives will be funded by the hive loan facility which will be a commercially based loan with interest rates subsidized by donors. Training will be critical to the project to ensure quality and successful relationship management and although expected to be mostly funded by donors, will initially be funded by the main project promoter to ensure early progress.

Honey will produced in a variety of hives but increasingly KTB's, (Kenya Top Bar hives) collected by company vehicles from the producer collection points where it will be pre-graded and paid for. Once in the factory, honey will be separated from the wax and packaged. Although harvested mainly in October, November, the honey will be processed and sold throughout the year according to demand and pre-arranged deals.

Quality protocol in terms of product, operations, relationships and the environment will be guided by Fairtrade and Organic standards. From the outset, Organic Accreditation will be sought through the Soil Association.

## PROFIT MARGIN

<b>Profit Margins</b>	Yr 1/10	Yr 2/11	Year 3/12	Year 4/13	Year 5/14	Year 6/15
Total Income	294,425	883,275	1,766,550	2,944,250	3,680,313	4,416,375
Total Costs	401,631	866,665	1,513,286	2,384,248	2,928,599	3,472,950
Margin (Pre Deprecn,Tax, Int)	(107,206)	16,610	253,264	560,002	751,713	943,425
Profit % (Pre Deprecn,Tax, Int)	-36%	2%	14%	19%	20%	21%

## SOCIAL & ECONOMIC BENEFITS

### *Jobs*

The company will provide direct employment for at least 20 people who will all benefit not only from remuneration packages, but expert training in their roles in honey production, collection, processing, quality, logistics, sales and other company activities.

### *Self Employment*

By far the greatest gain to the communities in which the business will operate will be through the sale of honey. It is intended that in the first five years, at least 50,000 hives will be deployed and owned by the beekeepers. It is envisaged that the average beekeeper will have 10 hives, yielding up to 120kg in total, realizing up to \$390 per annum in revenue. This equates to a potential total enrichment of the communities in which the business operates of US\$1.95m/annum.

### *Supply chain benefits*

Other supply chain benefits includes: Training and training of trainers to develop unique and up to date industry skills; Training in financial and business management; Manufacture of smokers; Manufacture of bee hives.

### *Environment*

The honey business has clear benefits for the environment, particularly in the preservation of existing forests and reforestation. The reforestation aspect will likely be boosted once clear economic benefits of beekeeping materialize.

### *Other*

V&M Grain Co, Lda will also investigate ways of boosting production of the grain crops that it purchases from producers as a separate business to the honey business.

## COMPETITION

The project's main competitive advantage lies in the fact that Mozambique still has a very large proportion of land under natural forests and other vegetation. Combined with the fact that there are very few inorganic chemicals and fertilizers used in Mozambican agriculture, the company is very well positioned to compete in the international niche organic honey market.

Within Mozambique, it is not envisaged that there will be much competition in the high quality range that the company will aspire to produce. There is an active local market supplied in part by locally produced honey, however quality is generally of a low standard and the company does not intend to participate in this market segment.

International competition will, however be a significant challenge alleviated in part by the increasing demand for high quality organic honey in the face of major challenges in world production due to bee disease and deforestation. In fact, although the promoter expects some stiff competition, he envisages a growing worldwide demand for the foreseeable future.

## RISK MITIGATION

➤ *Relationship between company and producers, especially regarding the issue of side-selling:*

The Company will ensure adequate resources are made available for training and communications with producers to secure loyalty.

- *Potential drop in demand and Price fluctuations:* The Company will pursue a diversified marketing strategy which ensures that at least three market outlets are current at any point in time. Preferably, a regional market (South Africa) will be serviced at the same time as a European or Middle Eastern market and an Asian market. This way, seasonal decrease in demand and price can be managed by product diversion.
- *Hive loan payback:* The Company will ensure adequate financial training is provided to all producers that participate in the hive loan fund and will ensure that they receive a fair and equitable price for their product.
- *Quality:* The Company will ensure adequate training in bee and honey management to ensure top quality raw honey is produced. Correct post harvest handling will also be safeguarded to ensure that honey reaches the processing plant in top condition.

#### **THE TEAM**

- Andre Vonk - Promoter and planned 50% shareholder of the company, will be responsible for researching, planning and developing the core business, staffing it and overseeing operations. He will also lead the search for funding for the company and training and assist in seeking funding for the UCCN and hive loan fund.
- UCCN - Producer representation and planned 50% shareholder of the company. UCCN will develop the capacity to initially represent the producers in the company and over time to take on most non-core project issues such as producer training, environmental impact and reforestation. It is also expected that the UCCN will play a lead role in managing the hive loan fund once it achieves adequate capacity.
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- Eco-MICAIA – Planned proxy with additional role of facilitating setup of UCCN. Eco-MICAIA, represented by Andrew Kingman will also assist in seeking finance for the hive loan fund. Eco-MICAIA has relevant and local experience.
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- SNV – Dutch NGO engaged from the beginning to assist with project development. Represented primarily by Martinus Ruijten, SNV will use experience gained in the honey sector in Ethiopia and other Sub-Saharan African countries and its diverse agribusiness to provide guidance and assistance where appropriate. SNV will in particular assist with seeking funding and developing training modules.
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- External Trainers – The steering committee currently comprised of the promoter and representatives from SNV, Eco-MICAIA and the producers will seek to appoint a professional and experienced training team/s to execute the training programs. The case may arise where more than one training team is appointed.

#### **FUNDING**

In total, US\$1.9m is required to finance the project. The funding is split as follows:

The Company	:	US\$ 80k	<i>Shareholders Loans</i> for start up of operations
The Company	:	US\$200k	<i>Commercial Loan</i> for start up of operations and equipment
UCCN	:	US\$120k	<i>Grant.</i> \$40k per annum for three years, after which internal funding will take over
Hive Loan Fund	:	US\$750k	<i>Commercial Loan with donors to pay the interest.</i> To finance the purchase of hives and smokers. \$750k will be peak requirement of preferred overdraft facility in year 4.
Training Grant	:	US\$750k	<i>Grant.</i> To finance training activities over 10 yrs

The Company's funding situation is represented in the table below. Clearly, there is a heavy reliance on internal revenue generation in the first two years. The Company will repay the loan by year 3 and be self reliant for funding thereafter.

<b>Investment Summary –</b> (The Company. Doesn't include hive fund, training or UCCN)			
<b>Estimated Project Cost</b>	<b>US\$\$</b>	<b>Proposed Financial Plan</b>	<b>US\$'s</b>
Buildings	15,000	<b>Equity</b>	
Vehicles	84,533	Share Capital	667
Processing Equipment	8,333	Shareholders Loans	80,000
Packaging Equipment	15,000	Internal Revenue generation	1,177,700
Other Equipment	14,166	Grants	-
<b>Initial Working Capital</b>		<b>Debt</b>	
Company Salaries	138,774	Loan	200,000
Cost of Sales	66,800		
Producer Payments	520,000		
Packaging and Packing	160,000		
Certification Costs	50,000		
Operating Costs	113,543		
Other costs	130,929		
Contingency	141,288		
<b>Project Cost</b>	<b>1,458,367</b>	<b>Total Financing</b>	<b>1,458,367</b>

