
A Market Analysis for Honey Production in Somalia



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Executive Summary

According to data from the Food and Agriculture Organization of the United Nations (FAO), while annual worldwide production of honey, propolis, and beeswax continues to increase, demand remains substantially in excess of supply. Furthermore, Sub-Saharan Africa produces only 9.8% of the world's honey and 23.5% of the world's beeswax. Exports from Sub-Saharan Africa are considerably less than imports. Somalia has an even more glaring shortfall. Modern commercial production of honey in Somalia/Somaliland is non-existent.

This market analysis identifies factors influencing the profitability of the honey business in Somalia. While the analysis focuses on Somaliland, the factors apply to all regions of Somalia. The framework for the analysis is an augmented form of Michael Porter's "five forces model" with the introduction of a sixth set of forces comprising complements that support the market segment.

The market analysis determines that some pastoral communities, using very rudimentary technology, harvest wild honey mainly for domestic consumption. There is also interest among developmental partners-especially ADRA, USAID, DANIDA, and Oxfam International-in helping drought-affected families navigate the challenges of prolonged famine by incorporating organized beekeeping in their efforts. In light of these developments, a potentially viable approach for tackling the market would be the tripartite model, which borrows from lessons learned in the neighboring countries of Kenya and Ethiopia, where modern beekeeping practices are well established. The tripartite model focuses on the entire market chain.

Such ventures, however, will have risks that start with coordination of the moving parts of the three sectors in the tripartite model: private entities (investor interests), developmental partners, and the smallholder associations. Other potential constraints include the possibilities of disease, exceedingly aggressive bees, and prolonged drought. In spite of these obstacles, the commercial production of hive products in Somaliland has the following reasons for optimism:

- World demand for hive products increasingly exceeds production
- No commercial apiculture firm is projected to enter the Somaliland market
- The proposed tripartite business model is a feasible avenue for filling this gap
- The buying power of residents is increasing rapidly
- The product is projected to be free of harmful chemicals and sourced from an extremely diverse botanical resource base
- The government of Somalia is granting an attractive tax holiday to foreign investors.

The Market

According to data from the Food and Agriculture Organization of the United Nations (FAO), while annual worldwide production of honey, propolis, and beeswax continues to increase, demand remains substantially in excess of supply. The last available FAO data on a year's production puts the world output at 1.5 million metric tons. Sub-Saharan Africa produces only 9.8% of the world's honey and 23.5% of the world's beeswax. Exports from Sub-Saharan

Africa, some of which are probably intra-Africa trade, are considerably less than the imports needed. Honey is, therefore, a product with unmet demand within both Sub-Saharan Africa and the wider global market. Somalia is no exception to this shortfall. Though no detailed country data exists, one can infer from the rest of Sub-Saharan Africa that considerable opportunities exist for the honey industry in Somalia.

Modern commercial production of honey in Sub-Saharan Africa is virtually unknown. In Somalia/Somaliland it is non-existent. The use of modern hives with movable frames, along with the application of disease prevention measures, would be major changes from the prevailing traditional practices. This meager amount of traditional beekeeping, which was observed by Shuraako personnel on a 2012 visit to Somaliland, has historically involved, among other things, unacceptable harvesting practices including the farmers processing the honey by squeezing it through pieces of cloth. Honey harvested in this way is of poor quality because the contents are then comprised of eggs, larvae, and honey mixed together. Consequently, local demand for good-quality honey, propolis (for health/medical uses), and beeswax (for candles, textiles etc.) is not being met.

This market analysis identifies factors influencing the profitability of the honey industry in Somalia. While the setting for the analysis is Somaliland, the factors apply to all regions of Somalia. The framework for the analysis is an augmented form of Michael Porter's "five forces model" with the introduction of a sixth set of forces comprising complements that support the market segment.

Competition

No known entity is currently engaged in a significant commercial enterprise to keep bees or harvest honey in Somaliland. As of late 2012, some pastoral communities were harvesting wild honey mainly for their own consumption using rudimentary technology. There is interest among developmental partners-especially the Adventist Development Relief Agency (ADRA), the United States Agency for International Development (USAID), the Danish International Development Agency (DANIDA), and Oxfam International-in helping drought-affected families navigate the challenges of prolonged famine. These developmental partners could incorporate organized beekeeping in their efforts to provide cash-generating projects. In addition to these efforts, the Rural Development Centre and the city of Arabsiyo recently introduced apiculture to the agricultural district 30 kilometers west of Hargeisa by initiating Somaliland Beekeepers Cooperative Societies (SOBCOS). This object of this initiative is to develop knowledge of, and an appreciation for, apiculture as a legitimate and sustainable source of income. This initiative is still very much in its nascent stage.

Bargaining Power of Buyers

No hard data currently exists on the numbers of qualified buyers among members of the diaspora. However, strong inferences can be made from the scope of remittances cited in the five-year development plan among multinationals and the nouveau riche already living in Somaliland. The largest segment of buyers for these homes would likely come from the ranks

of Somalis returning from the diaspora. These buyers, though not an organized group, comprise a significant number: the five-year development plan for 2012-2016 claims that more than \$400 million will be remitted with approximately 15-20% of that sum becoming available for investment. In addition, the Somalia NGO Consortium website indicates that there are at least 89 national and international aid organizations operating in Somaliland. There is a dearth of housing choices for buyers connected to those organizations, and many still commute from Nairobi as needed. Decent, adequately-serviced, and secure townhomes, stand-alone homes, or semi-detached mansionettes would surely be a welcome relief.

The proposed housing project should appeal to a wide demographic with emphasis on impeccable workmanship. The housing enterprise should seamlessly blend the best characteristics of a classic, traditional neighborhood with everyday convenience, should be accessible, and should be cognizant of Somali culture. The options that this master-planned multi-acre community could offer include:

- Single-family homes, multi-family homes (semi-detached units), and detached mansionettes.
- Amenity centers built by the developer and operated by the homeowners' association or agents thereof. The amenity centers could include a clubhouse, gymnasium, and community theater.
- Paved streets, street lighting, and right-of-way buffers.
- A community park as well as small neighborhood "pocket" parks; playgrounds; open space; and greenbelts.

Community utilities including water, sewer, and garbage removal as well as inclusion in community fire and police department services.

Threat of New Entrants

Apiculture is an ancient industry whose social, economic, and environmental importance is just being recognized by the Somaliland government, as is evidenced by a perusal of the current five-year National Development Plan. There is also growing interest from many development agencies and community bodies. It is estimated that 50% of Somaliland's landmass can successfully support beekeeping. No new entrant is envisaged, especially not one following the proposed tripartite model that this analysis views as the most viable approach for investors seeking to verify the potential for returns. The tripartite model focuses on the entire market chain.

The tripartite model borrows from lessons learned in the neighboring countries of Kenya and Ethiopia where modern beekeeping practices are well established. The model is particularly suited to Somaliland's landscape. It seeks to run a responsible venture that engages the small business associations of Somali citizens, the training and sensitizing partners, and the business entities that will assemble the creative elements necessary to build an acceptable honey production and processing industry. The first component of this tripartite model is the group of small business associations, which would be tasked with the actual husbandry of bees.

The second component is comprised of partners like ADRA, USAID, Oxfam, DANIDA, Honey Care Africa, the International Centre of Insect Physiology and Ecology, and other like-minded

groups that have extensive experience in organizing, sensitizing, and training associations of farmers in good apiary practices. A major failure for the beekeeping industry in other Sub-Saharan countries has been the limited (or complete lack of) access to extension services, training, and investment for business growth, on top of inadequate beekeeping skills. The second component would help overcome some of these deficits.

The third component is the set of business entities that would work to interest investors in participating. This component would address the problems arising from the lack of functioning markets, the high transaction costs, and the inadequate processing technologies that have been the bane of many beekeeping ventures in other Sub-Saharan African countries. The entities in this third component, operating as private ventures, would guarantee farm gate prices for honey that is harvested by company staff out of hives managed by small groups of farmer associations. The procured raw honey would be processed, packaged, and marketed as a fair-trade item in both the local setting and at foreign destinations (especially the Gulf and other regions where the Somali diaspora live). The three main categories to be processed would be honey, beeswax, and propolis for selected markets.

Threat of Substitute Products

A factor in the attractiveness of this market segment is the underdeveloped state of Somaliland's honey and hive products industry. In the immediate future there is no discernible threat of substitute products. In other countries some of the market share of processed honey is taken up by products such as agave nectar. This is not the case in Somaliland, primarily because it takes between 7 and 14 years to produce agave nectar from Agave tequilana, Agave salmiana, and Agave americana plants. Also, agave nectar is not a perfect substitute because unlike honey it consists primarily of fructose and glucose.

Honey remains unique and is highly valued by citizens of Somaliland. It is used to boost athletic performance, promote mental efficiency, improve food digestion and absorption, and provide relief for respiratory irritations. Honey and hive products are also used in the beauty industry as significant components of moisturizing and nourishing creams and lotions as well as soaps and shampoos. Honey is, therefore, considered to be unique and superior to any substitute.

The Somaliland honey venture has unlimited potential with a strong value proposition which can be summarized in the following points:

1. The private entity that would venture into this market segment as part of the tripartite model has clear first-mover advantages.
2. The business model would be difficult to replicate.
3. The business would provide an opportunity for smallholder farmer groups to engage in viable apiculture, using modern methods and practices while utilizing the extremely diverse botanical resources that flower over different seasons in Somaliland.
4. The business would encourage good apiculture practices and enable rural citizens of Somaliland to diversify production away from traditional agriculture.
5. The venture would reduce the negative impact of losses associated with poor or failed crop production, and help reverse the environmental degradation arising from the extensive harvesting of charcoal while also increasing household income flow.

Bargaining Power of Suppliers

In light of the fact that the proposed tripartite model is a venture that seeks to grow with the continued stabilization efforts of the country, measures that seek to employ the Somali people can only help the ongoing process of bringing Somalia/Somaliland into the fold. While relevant special skills may not be readily available, they can be garnered through enacting short term contracts with reputable firms that have a history of successful practice. These firms can also scale up into operations in Somaliland.

A few companies from Ethiopia or Kenya, such as Honey Care Africa, could be engaged to operate with the objective of knowledge transfer and local capacity-building. The importance of the firms is particularly relevant when hive-making is taken into account. The primary hive type should be the Langstroth hive because it has superior honey-production qualities when compared to the more prevalent Kenyan Top Bar hive. The skills required to make the former are, however, more complicated.

A resource needed from suppliers is electric power for honey processing. Because the power supply from the grid in Somaliland is unreliable, investors should seek self-sufficiency in power generation by using renewable energy, especially solar energy, as the primary source of energy. This is very relevant to the market analysis of wind energy that was also published by Shuraako. In addition, water sources for refineries and for the packaging of the product must also be identified. Clean water is a key component of the refinery process.

Bargaining Power of Buyers

The local demand for commercially produced honey is not currently being met by any one vendor. There is a need for vendors who can refine, process, package, and sell honey and associated hive products through appropriate distribution channels. The industry will grow only with the establishment of a strong distributor network.

Beyond supplying reputable distributors with trademarked packages in local outlets, other viable markets for commercially produced honey from Somaliland include the nascent pharmaceuticals industry and manufacturers of food and health products within the country. As international markets are developed, the high-end processed hive products will have a more visible presence in the Gulf and littoral states. Countries with significant ethnic Somali populations will be among the first destinations. For many in these communities there will be a strong pride in buying products from Somalia.

Complements in Support of the Market

The proposed market and the tripartite model for implementing it have risks that start with coordinating the moving parts of the three sectors:

- Private entities (investor interests)
- Developmental partners, and
- Smallholder associations

While every effort could be made to mitigate the risks of the parts not moving in sync, there is significant risk. Second, any business venture in rural Somaliland is fraught with security concerns. Hives may be stolen, vandalized, or otherwise debased, threatening the quality and quantity of hive products. It is therefore essential that the small owner associations take ownership of, and pride in, the hives that they own, and that the owners receive prompt and reasonable dues from them. This level of ownership might be tied to a credit line in tandem with the developmental partners. Security problems also may exist in the collection and transport of raw honey products from the disparate points, adding costs and adversely affecting the bottom line. An even more ominous security issue is the absence of strong governance structures with which to handle potential legal problems.

In terms of exogenous factors, the output of hive products could be limited by at least four constraints:

1. Disease and parasites, especially the spread of destructive termites, could endanger the quality of hive products.
2. The possibility of local bee strains being exceedingly aggressive and therefore affecting output is not remote.
3. Downstream factors such as prolonged drought that may reduce the consumption of honey in the local markets.
4. Adverse weather not only has an impact on consumption but also negatively influences the quantity and quality of crop available for Somali honey markets.

Despite these negatives, commercial production of hive products in Somaliland has a few things going for it:

1. World demand for honey and hive products are substantially in excess of supply and is likely to not only remain so, but to increase even further.
2. No dedicated commercial apiculture firm with modern tools and equipment is currently in operation within the jurisdiction. The proposed tripartite business model is a feasible avenue for filling this gap with initial production projected to partially fulfill local consumption needs before foreign markets are tackled.
3. The product is projected to be free of harmful chemicals and come from extremely diverse botanical resources which flower throughout the year and provide an almost ideal environment for apiculture.
4. The government of Somalia is granting foreign investors an attractive three-year tax holiday and subsequent 50% rebate for the second three years.
5. According to official Somaliland government data the buying power of residents is also growing.
6. Finally, Somalis from the diaspora are returning and/or are sending upwards of \$400 million to their homeland annually, a significant portion of which foreign investors might profit from

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