

Black Gold – Case Study

Integrated forestry and paper manufacturer Mondi needed to look no further than its company's waste products to build an innovative and commercially sustainable social enterprise in Kwa-Zulu Natal.

Overview

In 2002, Mondi received was awarded a £114,000 grant by the DFID-funded Business Linkages Challenge Fund (BLCF), administered by Emerging Markets Group. The grant was used by Mondi to fund the implementation of a 3-year project to establish a charcoal producing company called Black Gold. Mondi also invested £115,880 of its own funds, creating a successful partnership between the private sector and a donor funded programme.

Black Gold was set up to convert Mondi's waste timber into charcoal which in turn could be sold at profit to larger charcoal distributors. Not only has this been a successful business venture - achieving commercial sustainability by 2004 - but the venture has also had positive social and environmental impacts. For example, Black Gold's charcoal production units have fostered entrepreneurial and employment opportunities for the local community through the creation of business linkages at both domestic and international levels.

In addition, by using waste timber for charcoal production the business has helped reduce the risk of forest fires in the area - a serious and common problem in the area. The venture has also directly contributed to the Millennium Development Goals through poverty reduction (MDG1), ensuring environmental sustainability (MDG7), and empowering women (MDG3).

The Model

Mondi started with a 30% stake in the company, the remaining 70% being split 10/60 with a community trust and a consortium of local entrepreneurs, respectively. The model is in line with the Black Economic Empowerment (BEE) initiative in South Africa as the local entrepreneurs represent people from a previously disadvantaged background. As stated above, Mondi together with funds from the BLCF provided investment from which the company financed the construction of kiln sites which could be used for the production of charcoal and the training of the local entrepreneurs and their employees. The extensive training program for entrepreneurs included topics such as forestry entrepreneurial skills, supervisory skills, chainsaw operating, health and safety skills, first aid, and getting drivers licenses.

For each active kiln site, Black Gold has employed a local entrepreneur to lead the business. There are currently 8 active kiln sites and 1 bagging site.

The kiln sites employ their own timber collectors who are given access to Mondi's timber sites. They collect any timber that has been deemed as 'waste material'. The local entrepreneurs manage staff engaged in timber collection charcoal processing, thereby building their managerial and HR skills. The entrepreneurs are also engaged in quality control of the final product, ensuring that smaller pieces of charcoal and ash are sifted out.

The bagging site is run by Black Gold's first female entrepreneur and its workforce is currently comprised of over 80% women. Bagged charcoal at this site is sold on to an intermediary company which in turn supplies an international market that includes the supermarket chain Tesco, illustrating the high quality of the Black Gold product.

Mondi has been reducing its stake in Black Gold, gradually transferring its shares to the community trust and then to 0 when Black Gold was dissolved and returns were split among shareholders. Now that the entrepreneurs' capacity has been built and they formed an association to speak with one voice to the market, there is no more need for an intermediary institution such as Black Gold.

Commercial success

In the first year of operation (2003), Black Gold issued dividends to the entrepreneur investors. In the second year, it doubled its turnover to 6.5 million ZAR and an un-audited profit of ZAR850,000. By 2006, at the end of the BLCF project, turnover was at ZAR3.6million with each site earning between ZAR70,000 to ZAR100,000 monthly.

Given the entrepreneurial ethos behind the project, opportunities for scaling up have been identified in an additional refinement stage to produce activated charcoal that can be used for water filters, medicinal purposes, and even for the purification of gold. The price the entrepreneurs can receive for activated charcoal is Rand12,000/ton. However, it costs around Rand1million to establish an activated charcoal plant and Mondi Zameli (Mondi's business services arm) is looking into various options for financing this. Capturing the diverse market for charcoal will be a good way to keep the entrepreneurs in high production levels and with an assured market. It can also market its product to environmentally conscious buyers, as the firm has a Forest Stewardship Council certification. In addition to this, it won an environmental award at the 8th World Health and Environmental Congress in Durban, South Africa.

Although the venture has demonstrated commercial sustainability there are some challenges remaining namely improving business operational efficiency. For example, as it is expensive to transport timber (it is bulky and has low mass) some of the sites need to be moved closer to the production site.