

# The Challenges of Investing in the Agriculture Sector in Mozambique

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Paulo Mole  
Senior Manager  
Development Advisory Services  
KPMG Mozambique  
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Outline

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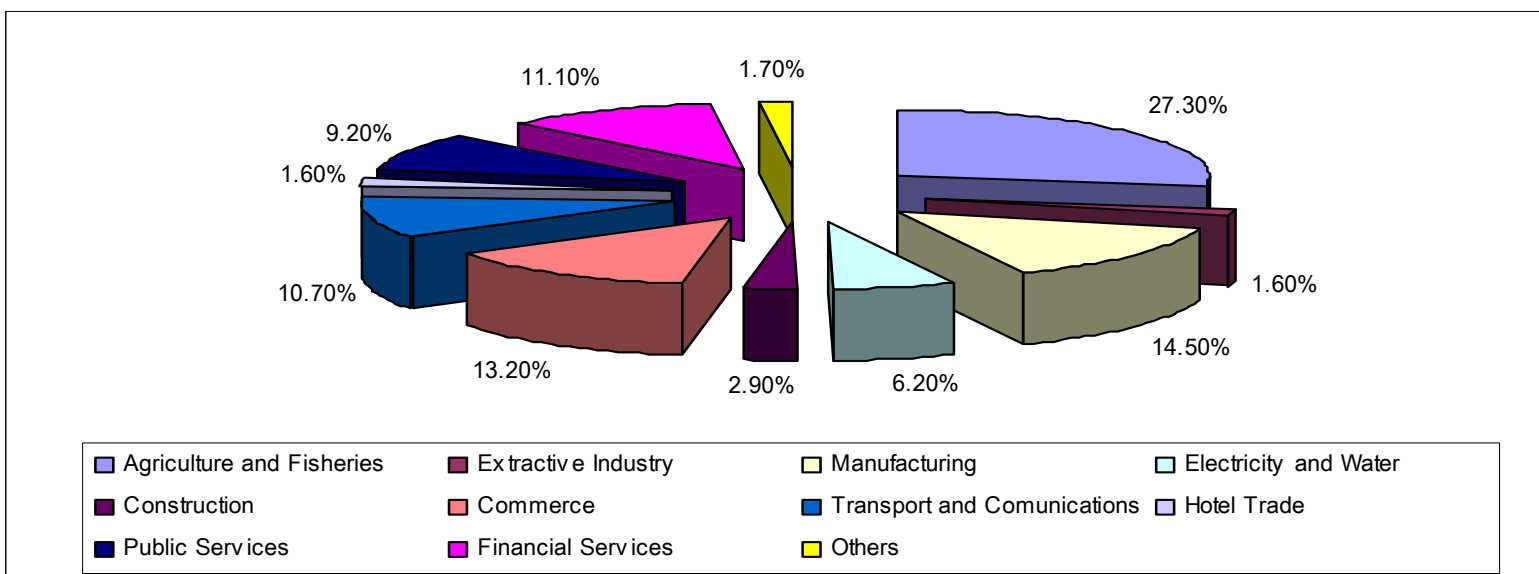
## Background: some socio-economics...

- Mozambique, the country known as poor country, but with an impressive 8% annual growth in last decade. Last 5 years has growth faster at about 8.9% due to investments on large projects (Mozal, Sasol gas, etc.) and aid flows. Poverty levels reduced from 67% in 1997 to 54% in 2003.
- Yet, in by 2007 World Development Statistics...

Indicators	Unit	Value
<b>Population:</b>		
<i>Total</i>	Millions	21.4
<i>Growth</i>	% annual	1.9
<b>Surface area</b>	Thousand Sq.Km	799.4
<b>Life Expectancy at birth</b>	Years	42.1
<b>Infant Mortality Rate</b>	Per 1,000 live births	115.4
<b>Literacy Rate (youth female)</b>	% females age 15-24	47.5
<b>GNI per capita</b>	Billion USD	340.0
<b>HIV Prevalence</b>	% of aged 15-49	12.5
<b>Source:</b> 2007 World Development Indicators		

# Highlights from Mozambique's Agricultural Sector

- The Agricultural sector is a substantial part of Mozambique's economy, about 27%.
- About 80% of its population depends on it for living:
  - About 90% of those are subsistence farmers, 60 % of which are female.
  - They account for 95% of total agricultural production.

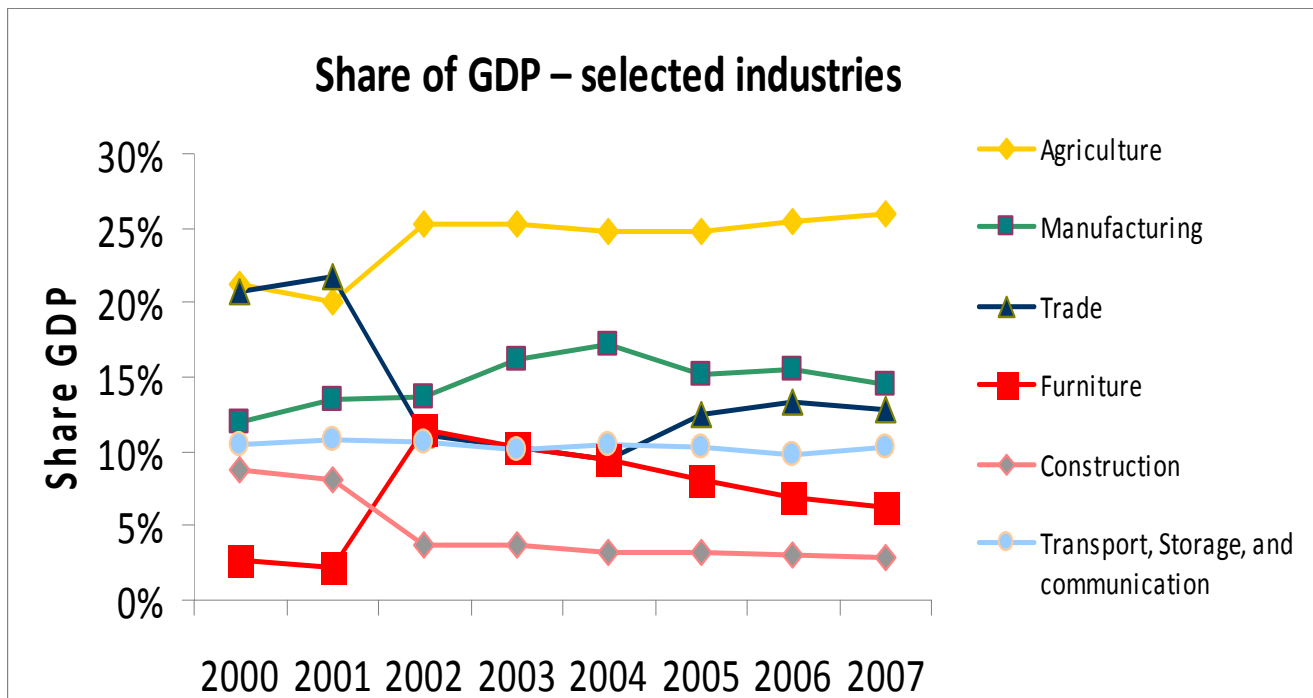


Graph 1: Mozambique's GDP Shares by Sector 2008

Source: BAfD-OCDE 2009

# Highlights from Mozambique's Agricultural Sector

- Agriculture's share of GDP has remained largely constant in recent years.
- Lack of investments with significant impact on growth.



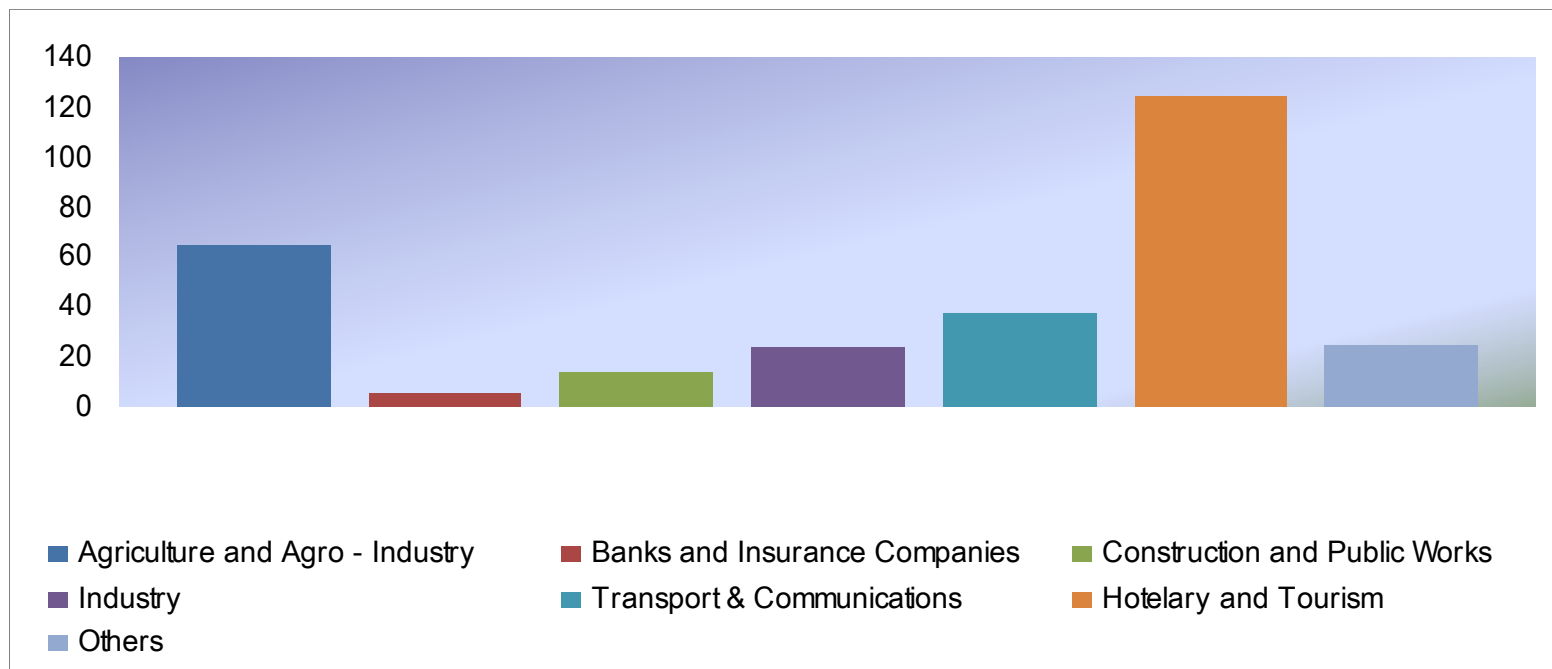
Source: Instituto Nacional de Estatística

Note: Agriculture includes animal production, hunting and forestry

# Highlights from Mozambique's Agricultural Sector

- The trend of foreign direct investment in 2008 shows that agriculture is second more attracting sector.

**Graph 3: GDP Share by Sector 2008**



**Source:** PES Balance 2008

# The Challenges of Investing in the Agricultural Sector in Mozambique...

- With plenty of water, power and labor for potential investors, a huge availability of land at a low opportunity cost for most kinds of businesses, and an easy access to regional and international markets; as well as
- Government commitment to attracting and keeping foreign investment.

■ WHAT LACKS TO MOZAMBIQUE FOR AN EFFECTIVE AND INCREASED INVESTMENT POOL IN THE AGRICULTURAL SECTOR?

# Challenges of Investing in the Mozambique's Ag-.sector

Many of the challenges in investing in the agricultural sector in Mozambique are both **Institutional** and **Operational**

- **Institutional challenges are related to:**

- A. The Policy environment; and

- B. Lack of:

- Market knowledge;

- Management skills; and

- Financing.

# Institutional Challenges

## ■ Policy environment

- **Enabling environment:** global investment community, means more intense competition for investment. This requires, a business friendly environment to help moving towards formal businesses sector (ex., small and medium enterprises, find more easily to formalize, grow their businesses, and create additional jobs).
  - Despite current efforts, there still improvements in construction licenses, closing a business, enforcing contracts, paying taxes, protecting investors, and getting credit.
  - Others issues include VAT reimbursements, border control posts, business permits or permissions, etc.,
  - Weak Institutional set up and technical capacity at the central level to design and implement policies conducive of ex., market-led irrigation development, and enhance the regulatory framework around water for agriculture.
- **The Fiscal policy is not favorable to the productive private sector, and the fiscal contribution in the rural areas is low.**

# Institutional Challenges

- **Policy environment**

- **Research and Development** – by Government or commercial farms?

- Financing arrangements not clear yet;

- Unclear priority setting on research, basic research or/and adaptation, and scientific dissemination of agriculture products and methodologies; and

- Weak links between agricultural research and the commercial farming (with the few that exist) due to the limited capacity and lack of specialized or qualified technicians in the public sector.

- Research evolving mostly around smallholder sector with commercial sector needs met by external supply

# Institutional Challenges

## Market Knowledge, specific Technical and Managerial skills

### ■ Market Knowledge

- Very few cases of better links/more efficient supply chain and market knowledge at the moment.
- For most agricultural products, their market dynamics are not well known by local firms (market opportunity windows).

### ■ Technical and Management skills

- Lack of specialized agricultural training and education among non-commercial producers (or service providers) which impacts negatively opportunities for productivity gains within the agricultural sector;
  - Reasons for very few outgrowers schemes and underdeveloped value chains.
- Management/training – technical and/or business skills

# Institutional Development Challenges

## Financing

- If Mozambique is to realise its potential, it needs innovative thinking to provide finance. Currently:
  - Most investments are FDI, JVs or funded by external banks;
  - Infrastructural investments (water, roads & electricity) absorb significant amount of start-up finance;
  - No funding options available for long-term investment in tree crops;
  - Collateral issues, poor repayment record and lack of interest has made the actual delivery of funds to agriculture difficult.
  
- **Lack of agricultural insurance:** There is a need for new initiatives that reduce risk to agricultural investor and improve access to resources.
  
- Weak incentives for an expanded banking sector to rural areas.

# The Challenges in Investing in the Agricultural Sector in Mozambique...

Many of the challenges in investing in the agricultural sector in Mozambique are both Institutional and **Operational**

## ■ **Field level Issues** (Operational)

- A. Lack of a critical mass;
- B. Market –Infrastructure; and
- C. Production and quality.

# Operational Challenges

- **Lack of a critical mass** ..., for economies of scale and cheaper inputs eg. freight, for effective market share .. and knowledge development.
- Despite the opportunities on critical and high potential crops such as rice (around Beira); horticulture (bananas, mangoes, and high-value vegetables in Manica, Sofala and around Maputo); and sugar (Sofala); and
- Social capital investments already made smallholder producer organizations in several parts of Mozambique that would reduce transaction costs in marketing.
- There is lack of success stories to establish a viable agricultural sector, particularly in the agro-processing.

# Operational Challenges

- **Market –Infrastructure** ... ports, roads, communication in high potential areas for agricultural investment and development.
  
- Lack of systematic Infrastructure development and Investment (ex. irrigation systems, most that exists, lack rehabilitation and maintenance).
  
- In some areas investments would include, mostly:
  - rehabilitation (and not so much new construction) of small dams (less than 8m high by Mozambican standards) and irrigation schemes,
  
  - construction of community-managed micro dams for rainwater harvesting (with a focus on women), and
  
  - rehabilitation of rural/feeder roads and supply of electricity to the pump stations.

# Operational Challenges

## ■ Production and quality

### ■ Lack of specific support to Production and Value Chain Development to promote/scale up:

- new technologies in production (ex. improved varieties, on-farm water management, mechanization, post-harvest handling), and

- to overcome bottlenecks in storage, processing and marketing.

- With unfavorable fiscal policy there is less incentive to invest in productive and private sector assets in rural areas weakening value chain development.

# Concluding Remarks...

## Optimism over Challenges:

- Common understanding (CTA and government) that overcoming challenges require an effort from both sides
  - financial constraints are on both sides, at the moment; and
  
- There is an established Private Sector Working Group (PSWG) comprising the private sector, government and donors with an agenda on reform issues, particularly on governance and improving business environment.
  
- As a result the government has undertaken recent measures on business start-up and licensing:
  - elimination of minimum capital requirement,
  
  - streamlining of license requirements for SMEs; and
  
  - the establishment of commercial courts and the simplification of tax and customs requirements for small investors.

# Concluding Remarks...

## Optimism over Challenges:

- The government also recently introduced a Simplified Tax Code for Small Contributors (ISPC) with the aim at reducing tax compliance costs by streamlining procedures.
- There are ongoing talks with the World Bank, the African Development Bank to set up specific funding programs on infrastructure with direct impact on the agricultural sector (ex., irrigation programs).
- Donor interest and actually funding value chain approaches to agricultural financing and farmer support:
  - ex. USAID with AgriFuturo
  - Empreenda, etc
- Private banking interest in developing financing options such as equity capital.

... And for now...



Thank you!

## CONTACT OF THE PRESENTER:

Paulo Mole

Senior Manager

Development Advisory Services

KPMG Mozambique

Tel: +258 21 355 200

Cell: +258 21 355 200

Email: [pmole@kpmg.com](mailto:pmole@kpmg.com)

Web: [www.kpmg.com](http://www.kpmg.com)