

# Promoting the Agroindustry in Mozambique

A summary of the study **Challenges and Opportunities for the development of Agro-industry in Mozambique**

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Agricultural workers make up 80% of Mozambique's labor force but the sector only produces 23% of Mozambique's GDP. Despite the reliance on this industry, the country is highly dependent on international trade and is a net importer of many food products such as rice, wheat, vegetable, and vegetable oils. This report aims to understand the impact of certain activities on Mozambique's ability to produce and import basic consumer products while considering the effects of the COVID-19 pandemic and the expectation of further disruptions. The study analysed the impact of potential interventions along the value chains for rice, chicken, soy, maize, cooking oil and the feed industry on the balance of payments, household income, and the potential for developing a closed agro-processing chain. The goal was to identify what were the most prevalent obstacles for the development of Mozambique's agroindustry and assess the impact that certain initiatives would have on job creation, on the reduction of the agricultural trade balance deficit, and on the economic empowerment of women.



## KEY FINDINGS

While some public policies - namely tax structures and incentive policies - are obstacles to the development of the agroindustry, the main problem lies on the supply side with the production of necessary raw materials.

In fact, the quantity, quality, regularity of supply, as well as their transport, logistics and prices are the greatest obstacles to agricultural production.

Specifically, weak industry associations, limited scale, poor logistical infrastructure (transport and storage) and lack of effective intermediaries combined with distrust among partners and activities such as smuggling, and side-selling collectively threaten the sector's development.

The limited supply-side capacity for quality, regular and competitive agricultural goods also highlights the high degree of external dependence that the country has on these products and their derivatives.

*"The import of 17 tons of potatoes means one hectare of arable land idle in the country and 7 jobs created abroad of which 4 would be fixed... This means that just with the potato imports, Mozambique exports approximately 20,000 direct jobs per year of which more than 12,000 would be fixed."*

## CHALLENGES AND OPPORTUNITIES

This study aims to identify and propose changes in public policies necessary for the promotion of agribusiness and its value chains in Mozambique:

### SUMMARY OF RECOMMENDATIONS

- **Prioritization of value chains**
- **Agroindustry intermediary promotion**
- **Review of tax policies**
- **Relocating industries and production**
- **Developing the edible oil industry**
- **Developing a program for the promotion of local vegetable production**
- **A strategy for women's empowerment in SUSTENTA**

**Mozambique should focus its efforts on the value chains** of rice, corn, poultry, edible oil, soybeans, sesame, and horticultural crops, in addition to sugar, whose chain is already minimally developed. The recommended criteria is based on the external dependence and its impact on the balance of payments, the tradition in production and the volumes of national consumption.

## Agroindustry Intermediary Promotion

Industry intermediaries take advantage of information asymmetries to get the lowest prices from producers, while paying no attention to the quality of their products. This effectively reduces the prices of raw materials and maintains the high level of competitiveness from international players. Intermediaries avoid investing in product quality as contracts are of little value and intellectual property protections are non-existent.

The report calls for the development of, and institutional support for an Intermediary class that commits to consistently providing according to quality and volume standards to local supermarkets.

## Review of Tax Policies

The complexity of agricultural production requires specialized technical assistance and the market integration of the logistical, storage and conservation practices to maintain quality and volume standards. These resources, in turn, require scale to be productive, which is especially difficult in Mozambique as most production is carried out by smallholder farms.

The report recommends that VAT tax exemptions be granted throughout the agricultural value chain and allow for the emergence of the value-adding intermediary class, while simultaneously giving tax incentives to industries that use local raw materials

## Relocating industries and production

Currently, it is more expensive to transport goods between the North and South of the country than to transport the same goods between Asia and Mozambique. The availability of international shipping at competitive prices makes foreign producers very competitive in many commodities.

The high cost of moving product from the large agricultural production areas in the Center and North to agro-industries and large markets in the south, is largely attributable to the poor quality of its infrastructure.

The recommendation is to create an incentive policy for the relocation of large agro-processing industries from the south to the production centers in the center and north.

## Developing the edible oil industry

Like much of Sub-Saharan Africa, cooking oil production has a lot of potential in Mozambique, which the government attempted to support by imposing a relatively high tariff of 20%, plus VAT, on refined oil imports. However, the national reports of import-export data of edible oil, much like chicken products, have large statistical discrepancies with figures from trading partners which indicates the prevalence of smuggling.

*"More than one million jobs are exported in Cereal and Oilseed Imports in Mozambique"*

The national edible oil industry is prevented to reach its full potential due to a combinations of factors. This reduces competitiveness in the development of the oilseed value chain.

The report recommends a multi-pronged policy to promote the edible oil value chain and prioritizing disincentives to import edible oil, whether raw or refined:

- I. A disincentive tax policy on the import of raw materials for the processing of cooking oil
- II. A ban or increase tariffs on crude oil imports and control the nature of the oil to prevent smuggling
- III. Promote an alliance - driven by CTA and the Oilseeds Institute - between SUSTENTA / PROCAVA / TechnoServe / SNV / ADVZ for the development of the oilseeds value chain – from seed to processing
- IV. With the support of CTA to promote the alliance between AIOPA (oils) and AMIA (poultry) in the development of the feed industry
- V. Openly discuss the competitiveness of GMO versus Non-GMO



## Developing a Program for the Promotion of Local Vegetable Production

Lack of scale in production is one of the problems affecting the production of vegetables in Mozambique. This situation could be solved if associativism or cooperativism in the country were developed. Cooperatives can also help in solving the existing distrust between buyers and producers due to asymmetric information about prices. Access to price information is restricted to 13.6% of agricultural producers. The cooperative can overcome the problems of asymmetry of information in the markets resulting in a better price to the producer.

*"A local production of vegetables would drive an entire chain of processing, packaging, transport and shipping to markets and possible jobs"*

The report recommends the design of a program promoting local vegetable production. This should be led by the government and in partnership with companies in the vegetable production chain (e.g., agricultural trading companies; companies specialized in technical assistance to vegetable producers from production, processing to marketing; associations of informal importers of fresh produce from South Africa; PROCAVA and NGOs involved in vegetable promotion).

*"The country would reduce its imports of agricultural products from the current \$1 billion to just over \$619 billion. And the agricultural trade deficit would reduce from the current US\$ 524 million to less than US\$ 70 million (US\$ 67,168,000) a reduction corresponding to 87% of the current deficit."*

## A strategy for women's empowerment in SUSTENTA

Guaranteeing women's participation is a necessary element of value chain development. Women account for 60% of agricultural labor (around 3 million people) and 29% of smallholder farms are headed by women.

Low educational levels is one of the main constraints to women's participation in agro-industry as it affects their ability and motivation to participate in an activity that requires the mastering of new technologies. While access to agricultural inputs and services is already precarious, for women the situation is worse in terms of access to extension services and to credit.

The report recommends that the Sustenta program defines a gender strategy to more concretely include and empower women in order to meet its women's empowerment indicators.

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To request the full study please reach out to [technoserve-mozambique@tns.org](mailto:technoserve-mozambique@tns.org) or [info@cta.org.mz](mailto:info@cta.org.mz)