

DEVELOPMENT OF NATIONAL PRODUCER ORGANIZATIONS AND SPECIALIZED BUSINESS UNITS IN MOZAMBIQUE:

A STUDY FOR THE ROYAL NORWEGIAN SOCIETY FOR DEVELOPMENT
TO PREPARE A NEW PHASE OF PROGRAMME COLLABORATION

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Photo: Group of women in Mogovolas District, Nampula Province, discussing the future of IKURU

ACRONYMS AND ABBREVIATIONS

AGRA	Alliance for a Green Revolution in Africa
AMPCM	<i>Associação Moçambicana de Promoção do Cooperativismo Moderno</i>
APAC	<i>Associação de Promoção de Agricultura Comercial</i>
BAGC	Beira Agricultural Growth Corridor
CAADP	Comprehensive Africa Agriculture Development Program
CEPAGRI	Centre for the Promotion of Agriculture
CGIAR	Consultative Group on International Agricultural Research
CIMMYT	International Maize and Wheat Improvement Centre
CLUSA	Cooperative League of the USA
CSO	Civil Society Organisations
DANIDA	Danish International Development Agency
FAO	UN's Food and Agriculture Organization
FDI	Foreign Direct Investment
FRELIMO	<i>Frente de Libertação de Moçambique</i> (current governing party)
ICRISAT	International Crops Research Institute for the Semi-Arid Tropics
IITA	International Institute of Tropical Agriculture
MINAG	Ministry of Agriculture
NEPAD	New Economic Partnership for Africa's Development
NFK	<i>Norske Felleskjøp</i>
NGO	Non-governmental organization
NV	<i>Norges Vel</i>
ORAM	<i>Organização Rural para Ajuda Mutua</i>
PEDSA	Strategic Plan for the Agricultural Development
PPP	Public Private Partnership
PROMER	<i>Programa de Promoção de mercados Rurais</i>
SNV	Netherlands Development Organisation
ToR	Terms of Reference
UCAMA	Union of Peasants in Manica
UNAC	<i>União Nacional de Camponeses</i>

EXECUTIVE SUMMARY

- The report aims to provide a solid and realistic basis for decisions on the further development of national producer organizations and specialized input business units in Mozambique. The choices and experiences of IKURU (*SARL*) since its creation in 2003 as a producer-owned marketing company located in Nampula, as well as the challenges, problems and opportunities encountered, present us with a repository of valuable lessons learnt for the future.
- Development actors in the field of agricultural development should think in a 10-years perspective, not only in short-term funding perspectives of 2-3 years. The overall perspective to be taken at present should be 2011 – 2020; as a perspective to guide not only current decisions and actions concerning the future of IKURU, but also the further development of national farmers’ organizations at different levels.
- A time perspective 2011 – 2020 corresponds to the medium- to long-term vision of the newly approved Strategic Plan for Development in the Agricultural Sector in Mozambique, *PEDSA 2011 – 2020*. Further work and strategies for the future should seek to align with the objectives and strategies defined in the PEDSA. The PEDSA should further serve as a common platform for dialogue with other stakeholders working to promote agricultural development in Mozambique.
- The definition of strategic objectives in the Mozambican PEDSA was guided by the CAADP – the Comprehensive African Agriculture Development Program under NEPAD (the African Union’s New Economic Partnership for Africa’s Development). These strategic objectives are in the PEDSA set out under four *pillars*. Future work to support the development of national producer organizations and specialized business units are relevant to all four, and more specifically to pillar 1 and 2:
 1. Agricultural productivity
 2. Access to markets
 3. Sustainable use of natural resources
 4. Institution building
- The study confirms that a large number of farmers organizations have been formed in Mozambique over the last two decades. The majority are *farmers’ associations*. Almost all are affiliated with the National Farmers’ Union, UNAC; while a majority of these is not officially registered as *associations* with Mozambican authorities. But almost all have, at least during part of their history, connections to funding entities, either NGOs or donors.
- The study further indicates that although farmers’ associations have statutes, internal democracy is usually weak, and where there have been elections, it is usually the same small persons who are shifting positions – and the benefits attached – among themselves.
- Among the farmers’ organizations, the cooperatives are usually formally registered. In contrast to most associations, they have developed business plans.

- The new Cooperative Law provides a well-defined legal framework for organising farmers' cooperatives – with a clearly defined purpose. Commercialisation of products may at present be the most urgent, and the purpose towards which farmers can create reasonably well-functioning cooperatives. Major challenges are for these cooperatives lie in developing the necessary management skills to run large commercial operations, and negotiate transactions with experienced and highly business-oriented counterparts in agricultural markets.
- If cooperatives are organised as sales coops, there is ample space for separate farmers associations which, according to Mozambican legislation, should have with non-profit objectives, and are not in a legal position to sign commercial contracts. At present women's organisations seem to be expanding both their number and activities. But different types of farmers' organizations can be operative in the same localities, without being seen as competitive or mutually exclusive forms of rural organization.
- Support to and capacity building with modern producers' coops should include the facilitation of contacts to make possible regional networking and a more long-term forging of links between members of coops in similar situations and with similar challenges in different provinces, in order to create a basis for coop members – men and women – to share experiences and learn directly from each other.
- Initiatives to promote commercial agriculture tend primarily to involve and benefit mostly men. This is not only a result of 'local culture', but the outcome of concrete contacts and interaction between external agents, who are mostly male, and local farmers' spokespersons, who also tend to be men. Even development agencies with 'gender mainstreaming' policies do not seem to be aware of these dynamics, or see them as only secondary problems in the larger picture.
- There is a role for a well-run, high quality agricultural inputs company specialising in seeds in Northern Mozambique. There is also an important role to play for an honest broker and reliable partner company *with* farmer ownership. In order to *be* this company in the future, IKURU needs to become much more serious and professional, both in the relationships with farmers and with buyers of products. A seed specialist on site and development of professional competence *within* IKURU is a must in this regard, as part of an urgently needed professionalization of the company.
- As a farmer-owned company IKURU has sought to combine the different rationalities, expectations and priority structures of NGOs and businesses. In this way the company has also tried to span *business* and *civil society* activities. The result has been a lack of sustainability as a business.

- At the same time, the decision made by IKURU in 2010 to restrict trading activity to seed multiplication and fairtrade/organic commodities in order to increase profit margins, has reduced IKURU's relevance to the producers' needs for a reliable market and higher prices for the bulk of their produce, and affected IKURU's reputation among its farmer members. This is a real dilemma. The solution is probably to split its functions into separate business enterprises. These would then be in a position to seek strategic partners, each in their field.
- It should be recognized that banks in Mozambique have been cautious, if not hostile, to lending to small-scale agricultural producers. New cooperatives will, to a large extent, have to generate working capital from their own members and from their trading operations. In this regard the experiences of the ALIMI cooperative in southern Niassa during its first years of operation are of considerable interest.
- More generally, non-donor financing for agricultural businesses in Mozambique comes from two main sources: equity investment and commercial bank financing. *Equity investment* in Mozambique is dominated by family-financed equity investments, while 'equity partnerships' – e.g. in shareholding companies – are relatively uncommon. Interest rates are very high in Mozambique, and a commercial equity investor would seek in excess of a 35% rate of return on a given investment in agriculture, where the risk is considered to be high.
- Commercial banks tend to see small-scale agriculture as high risk. This is a risk they have been very reluctant to share. The Mozambican Land Law of 1997 (*Lei 19/97*) confirms what is stated in the Mozambican Constitution, that land is state property. For farmers with legal and/or community user rights this means that in practice agricultural land is out of the picture for use as collateral. Banks are therefore requesting other types of guarantees for loans, which tend to make credit processes long and cumbersome. In this context, it seems essential that IKURU can capitalize, and create assets that will also serve as collateral for future loans.
- In the setting of limited possibilities for national equity investments in agro-business, international development funds have an important role to play to develop commercial agriculture in Mozambique. To expand the activities of IKURU from the 'Nacala corridor' – with Nampula as its centre – to other regions in Mozambique, it will be necessary to seek support from such funds. These funding opportunities, the defined requirements and time frame for each of the most relevant of them should therefore be explored.
- Decisions about the future orientation of the development partnership which has the company IKURU as its *key unit* have to be based on plans developed in dialogue with IKURU management and board, and final decisions have to be made by the Board and General Assembly of the company.

- To support farmers it is necessary to respond to farmers' needs, and how they perceive their needs. That is, to sell their products at a good price, and to create reliable market relations. But it also related to the ownership structure in a farmer owned cooperative business such as IKURU. This study shows that the IKURU model is experienced as 'top-down' by farmer members. The model used in the establishment of the ALIMI producers' cooperative seems promising, but requires more time to be tested out.
- Farmers' views should be consulted and taken seriously when discussing a future ownership and management structure for IKURU. In this context the future role of the farmers' shares in the company must also be addressed, including the future role of farmers as shareholders in a potential joint venture company.
- In any discussion about reorganization and future up-scaling of IKURU, the principle of *accountability* by all actors, and the need to build *trust* among actors should be seen as essential building blocks for a sustainable enterprise in the future.

SUMÁRIO EXECUTIVO

- O objectivo do presente relatório é proporcionar uma base sólida e realista para decisões relacionadas com o desenvolvimento continuado de organizações de produtores nacionais e unidades comerciais de insumos especializados em Moçambique. A estratégia e experiência da IKURU (*SARL*) desde a sua fundação em 2003 como empresa de marketing pertencente a produtores com sede em Nampula, constituem um repositório de valiosos ensinamentos para o futuro.
- Os intervenientes no processo de desenvolvimento do sector agrário devem operar com perspectivas de prazo de 10 anos, e não apenas com perspectivas de financiamento de curto prazo de 2-3 anos. No presente, a perspectiva geral deve ser de 2011 a 2020, de forma a orientar não só as actuais decisões e acções relativas ao futuro da IKURU, mas também a continuação do desenvolvimento das organizações de agricultores nacionais em diferentes níveis.
- Uma perspectiva temporal entre 2011 e 2020 corresponde à visão de médio a longo prazo do recentemente aprovado Plano Estratégico para o Desenvolvimento do Sector Agrário em Moçambique (*PEDSA 2011 – 2020*). No futuro, o trabalho e as estratégias dos intervenientes no processo de desenvolvimento devem orientar-se para o alinhamento com os objectivos e as estratégias definidas no PEDSA. O PEDSA poderá ainda servir de plataforma comum ao diálogo com outros agentes envolvidos na promoção do desenvolvimento agrário em Moçambique.
- O estabelecimento de objectivos estratégicos no PEDSA moçambicano teve como linhas orientadoras o CAADP – Programa Compreensivo para o Desenvolvimento Agrícola em África ao abrigo da NEPAD (Nova Parceria para o Desenvolvimento de África). Estes objectivos estratégicos estão estabelecidos no PEDSA em quatro *pilares*. O trabalho futuro para apoio do desenvolvimento de organizações de produtores nacionais e unidades de negócio especializadas é relevante para todos os quatro pilares, mas mais especificamente para os pilares 1 e 2:
 5. Produtividade agrária
 6. Acesso ao mercado
 7. Uso sustentável dos recursos naturais
 8. Fortalecimento das instituições
- O estudo confirma a constituição de um grande número de organizações de agricultores em Moçambique nas últimas duas décadas. A maior parte delas são *associações* de agricultores. Quase todas estão filiadas na União Nacional de Camponeses (UNAC), mas uma grande parte não se encontra oficialmente registada como associações perante as autoridades moçambicanas. Quase todas têm tido, pelo menos durante uma parte da sua história, ligações a entidades financiadoras como ONGs ou doadores.
- O estudo indica que, embora as associações de agricultores tenham estatutos, a democracia interna é geralmente fraca e, nos casos em que se têm verificado eleições, os

candidatos são normalmente as mesmas pessoas, só que trocam de posições, e respectivos benefícios, entre si.

- O estudo mostra ainda que as cooperativas de agricultores estão, de forma geral, formalmente registadas. Ao contrário da maior parte das associações, também elas têm desenvolvido planos de negócio.
- A nova Lei das Cooperativas proporciona um quadro legal bem delimitado para a organização de cooperativas – com um objectivo claramente definido. A comercialização de produtos é, neste momento, o objectivo eventualmente mais premente e aquele que pode levar pequenos agricultores a criar cooperativas que funcionem relativamente bem. Para essas cooperativas, o maior desafio continua a ser o desenvolvimento das competências de gestão necessárias para conduzir operações comerciais de grande escala e ainda para negociar transacções com parceiros experientes e dotados de elevada orientação empresarial nos mercados agrícolas.
- Estando organizadas como cooperativas de vendas, existe ainda um espaço alargado para associações de agricultores individuais, as quais, segundo a legislação moçambicana, não deverão ter fins lucrativos e que, em princípio, não terão capacidade legal para firmarem contratos comerciais. Em particular, as organizações de mulheres parecem estar actualmente em expansão, tanto em número como em actividades. O estudo mostra que diferentes tipos de organizações de agricultores podem operar na mesma localidade, sem serem vistas como concorrentes ou como formas mutuamente exclusivas de organização rural.
- O apoio a modernas cooperativas de produtores e o desenvolvimento conjunto de competências deverão incluir a facilitação de contactos que permitam o estabelecimento de uma rede regional e, mais a longo prazo, a criação de ligações entre associados de cooperativas em situações semelhantes e com desafios similares em diferentes províncias. Estes instrumentos servirão de base para os associados das cooperativas, tanto homens como mulheres, partilharem experiências e aprenderem directamente uns com os outros.
- As iniciativas destinadas a promover a agricultura comercial tendem principalmente a envolver e a beneficiar homens. Este aspecto não é apenas o resultado da ‘cultura local’, mas o fruto de contactos concretos e da interacção entre agentes externos, na sua maior parte homens, e porta-vozes dos agricultores locais, normalmente também homens. Mesmo as agências de desenvolvimento com políticas de igualdade de oportunidades entre homens e mulheres parecem não se aperceber desta dinâmica ou então vêem-na apenas como um problema secundário no cômputo geral.
- Enquanto empresa pertencente a agricultores, a IKURU tem tentado combinar as diferentes racionalidades, expectativas e estruturas prioritárias tanto de ONGs como de negócios. Desta forma, a empresa tem igualmente tentado incorporar negócio e actividades da sociedade civil. O resultado tem sido uma falta de sustentabilidade enquanto empresa de negócios.
- Ao mesmo tempo, a decisão da IKURU em 2010 de limitar a actividade comercial à multiplicação de sementes e às commodities de comércio justo/orgânicas com o intuito de

aumentar as margens de lucro, tem contribuído para reduzir a importância da IKURU relativamente à necessidade sentida pelos produtores para um mercado fiável com preços mais elevados para a maior parte daquilo que produzem. Da mesma forma, tem afectado a reputação da IKURU no seio dos agricultores associados. Estamos perante um verdadeiro dilema. Uma possível solução seria dividir as suas funções em empresas individuais. Estas unidades estariam em condições para procurarem parceiros estratégicos, correspondendo, ao mesmo tempo, a expectativas moderadas entre os agricultores, centrando-se cada uma delas na sua área específica.

- Deve dizer-se que os bancos moçambicanos têm sido muito cautelosos, se não mesmo adversos à concessão de crédito a pequenos produtores agrícolas. As novas cooperativas terão de, em grande parte, gerar capital de giro através dos seus próprios associados e das respectivas operações comerciais. Neste sentido, reveste-se de particular interesse a experiência da cooperativa ALIMI no sul do Niassa durante os seus primeiros anos de existência.
- O financiamento (que não seja de doador) para as empresas agrícolas em Moçambique de modo mais geral provém de duas fontes principais: investimento de capital (participações) e financiamento de bancos comerciais. O investimento de capital em Moçambique é dominada para as participações familiares de investimentos do capital, enquanto por exemplo, 'parcerias com participação no capital (equity)' em empresas de participação são relativamente incomuns. As taxas de juros são muito altas em Moçambique, e um investidor de capital comercial procura obter uma taxa de retorno superior a 35% sobre um determinado investimento na agricultura, onde o risco é considerado elevado.
- Também os *bancos comerciais* tendem a considerar a pequena agricultura um risco elevado. Trata-se de um risco que têm sido muito relutantes em correr. A Lei de Terras moçambicana de 1997 (*lei 19/97*) confirma o que está estabelecido na Constituição moçambicana, nomeadamente que a terra é propriedade do Estado. Para os agricultores com direitos de utilização legais e/ou comunitários isso significa que, na prática, os terrenos agrícolas não podem ser usados como garantia. Por isso mesmo, os bancos exigem outros tipos de garantias para concessão de empréstimos, o que se traduz em processos de crédito morosos e complexos. Neste contexto, parece ser fundamental que a IKURU possa capitalizar e criar activos, que possam ser usados como garantia em empréstimos futuros.
- Num cenário de possibilidades limitadas para investimentos nacionais em participações no sector da agro-indústria, os fundos internacionais de desenvolvimento parecem desempenhar um importante papel no desenvolvimento da agricultura comercial em Moçambique. Para alargar as actividades da IKURU do *corredor de Nacala* – tendo Nampula como respectivo centro – a outras regiões de Moçambique, será necessário procurar apoio desses fundos. Estas oportunidades de investimento, os requisitos exigidos e o calendário para cada um dos fundos mais relevantes devem ser analisados.

- Existe, no Norte de Moçambique, espaço para uma empresa bem gerida na área de insumos agrícolas de elevada qualidade especializada em sementes. Um papel também importante poderá ter um intermediário sério e uma empresa parceira de confiança pertencente a agricultores. Para *ser* esta empresa no futuro, a IKURU terá de se tornar muito mais séria e profissional a nível de relacionamento com os agricultores e com compradores de produtos. Um especialista em sementes presente no local e o desenvolvimento de competências profissionais na área das sementes *dentro* da IKURU são essenciais e revestem-se de carácter urgente para a profissionalização da empresa.
- Os autores do presente relatório acreditam igualmente que a sobrevivência comercial da IKURU requer uma profissionalização que poderá ser mais facilmente conseguida dividindo a empresa em unidades de negócio individuais para sementes/insumos e comércio justo/orgânico, tendo cada uma delas o seu próprio conjunto de requisitos. Estas unidades terão de ser basicamente geridas como empresas financeiramente independentes, com contabilidade separada, de modo a garantir a responsabilidade e transparência empresariais.
- As decisões sobre a orientação futura da parceria de desenvolvimento que tenha a empresa IKURU como sua *unidade principal* terão de continuar a ser tomadas com base em planos traçados através de diálogo com a gestão e a administração da IKURU, devendo as decisões finais serem tomadas pelo Conselho de Administração e pela Assembleia Geral da empresa.
- Para apoiar os agricultores, é preciso ir ao encontro das suas necessidades e da forma como estes entendem essas suas necessidades. Primeiro: Vender os seus produtos a um bom preço e lidar com relações de mercado fiáveis. Mas também ter em conta o seu relacionamento face à estrutura de propriedade numa cooperativa pertencente a agricultores, como é o caso da IKURU. Este estudo mostra que o modelo da IKURU é visto pelos agricultores associados como uma estrutura ‘de cima para baixo’.

O modelo ‘revisto’ usado na criação da cooperativa de produtores ALIMI no Niassa parece promissor, mas requer mais tempo para ser testado, para poder vir a servir de modelo no futuro.

- A opinião dos agricultores deve ser igualmente auscultada e levada a sério na discussão sobre a propriedade e a estrutura administrativa futuras da IKURU. Neste contexto, é necessário discutir o futuro papel das acções dos agricultores na empresa, incluindo as futuras funções dos próprios agricultores – organizados em associações ou cooperativas – enquanto accionistas de uma potencial empresa em *joint venture*.
- Em qualquer discussão sobre reorganização ou futuro crescimento da IKURU, o princípio da *responsabilidade* de todos os intervenientes e a necessidade de ganhar *confiança* entre os intervenientes deverão ser vistos como elementos de base essenciais para uma empresa sustentável.

1 INTRODUCTION

The Terms of Reference for the study *Development of National producer Organizations and Specialized business Units in Mozambique*, which is presented in this report, was right from the start considered as both extremely ambitious and very broad (cf. ToR dated 6 January 2011, attached as Annex 1). As interpreted, and repeatedly reinterpreted during the time this study was carried out and reported, between March and October 2011, the ToR has above all served as the wider framework within which the study needed to focus and prioritise among the listed issues and objectives. A first priority has been to dedicate time and work to a verification and revision of the baseline and situation descriptions, as well as the future projections on which the study delineated in the ToR, as well as the envisioned future programme resulting from this study, were based. A main objective in the report has thus been to revise, broaden and update the construction of those elements of the Mozambican reality on which the future collaboration between Norges Vel (NV), Norske Felleskjøp (NFK), and Cooperative League of USA (CLUSA) with Mozambican partners should be based. In this context, we have more specifically addressed the situation, experiences and role of IKURU, established as a partly farmer-owned agro-business company in Nampula in 2003, and expected to play a central role in the further development of a network of national producer organisations and specialized agro-business units in Mozambique. It seems crucially important that future collaboration programmes in this field are based on a realistic view of constraints and opportunities, challenges and potentials in commercial agriculture as an evolving field in Mozambique, as well as on the needs and priorities of small scale farmers.

The findings presented in this report also indicate that the development results and outcomes envisioned and described in the ToR will require considerably more time to materialise than previously expected. But they will also require further investment of considerable resources in organisation building *with farmers*, as well as investments in capacity building at all levels. This means capacity building not only among small-scale farmers, but also at all levels in the organisational networks and value chains that in practice are the key elements in a future collaboration programme. The time factor and the capacity-building factor in the design of a new collaboration programme are no doubt interlinked. These factors have also been highlighted by other authors who have been analysing Mozambican development over many years. In their book *Do bicycles equal development in Mozambique?* Hanlon and Smart (2008:21) refer to the history of IKURU as a unique pioneering effort in creating a marketing company owned by farmers through cooperative ownership. But they also see the challenges involved in creating economically sustainable development through such a company, and refer specifically to short time horizons. Writing more generally about the time factor, they also use IKURU as an example:

Perhaps the biggest problems is that donors have very short time horizons and rapidly shifting priorities, yet successful development seems to need a decade or more of support. Ikuru will need 10 years of support if it is to succeed. (Hanlon and Smart 2008:22)

They hold that “the main need is for long-term business training and technical support” (Hanlon and Smart 2008:183). The perspective propagated in Hanlon and Smart’s book is above all that the Mozambican state must reorient its approach to development, and to a much larger extent prioritize development in the agricultural sector. Towards the conclusion of their book they also discuss the role of international NGOs in this context, and hold that:

Marketing and business support for associations and for the association-owned businesses like Ikuru would have a major impact... But these interventions will work only if they actually build up Mozambican competence, which in turn requires two things; first a long-term commitment – ten years, not three; and second that outsiders – the experts and consultants – work for, and are accountable to, Mozambican institutions. (Hanlon and Smart 2008:206)

During the interviews and field visits carried out for this study in April and May 2011, similar views were encountered among a diversity of people met and interviewed. We were also presented with

different and diverging views, which together have been used to form a basis for the descriptions, analyses and recommendations presented in this report. In order to contribute to the building of a sound basis for future collaboration to support the Development of National producer Organizations and Specialized business Units in Mozambique (cf. ToR, Annex 1), through this study we had the opportunity to encounter a wide range of views expressed in meetings and interviews with a large number of Mozambicans with diverse experiences and backgrounds. A list of people met and consulted is found together with the literature references at the end of the present report.

1.1 A NEW MOZAMBICAN STRATEGY FOR AGRICULTURAL DEVELOPMENT

A policy document which delineates both a revised approach and a long-term strategy to promote agricultural development in Mozambique, the Strategic Plan for Development in the Agricultural Sector (PEDSA 2011-2020), was finalised and approved by the Mozambican government during the period when the present study was carried out. The PEDSA 2011-2020 is a policy document that should provide a general framework for public-sector policies and new development interventions, but also a common platform for future collaboration programmes in the agricultural sector. As a policy document it is fairly exhaustive, and at this point in time it may be difficult to say very much about its practical implications. But according to the news bulletin *MOZAMBIQUE 181*², the PEDSA 2011-2020 was already on a meeting of the Council of Ministers in June 2011 followed up by the approval of a project to promote production of improved seed in Mozambique (amounting to 52 million USD). At the same meeting, it was decided that the Mozambican Cereals Institute (ICM) should take up the role of “buyer of last resort” of all grain produced in Mozambique, which private traders fail to buy. Both are decisions with clear relevance to the scope of the ToR for this study. It therefore seems both necessary and appropriate to look closer at some of the most relevant elements in the PEDSA 2011-2020.

The new *Plano Estratégico Para o Desenvolvimento do Sector Agrário* (PEDSA 2011-2020)³ was approved by the Mozambican Council of Ministers on May 3, 2011. The overall objective of the Plan is formulated in very general terms: Contribute towards food security and the income of agricultural producers in a competitive and sustainable way, guaranteeing social and gender equity (PEDSA 2011:vii). The Plan is based on a view of the Mozambican economy as essentially agricultural, but with an agriculture that is primarily subsistence-oriented and characterised by low levels of production and productivity (PEDSA 2011:vii). Mozambique has a land area of 799.380 km², and three main ports that not only serve the country itself, but also the neighbouring countries.⁴ According to the PEDSA (2011:13), there is more than 36 million ha of arable land in Mozambique, while only 10% of these are in use at present.⁵ And 90% of the cultivated land is used by the family sector. The PEDSA sees a great potential in the expansion of commercial agriculture, also to supply a growing internal and urban market for food. At present, around 35% of the population live in urban areas. With an urbanization growth rate at about 4% per year, it can be estimated that the urban population will reach 45% in 2020 – the final year covered in the new Strategic Plan (PEDSA 2011:14).

The executive summary of the PEDSA clearly states that Mozambique needs a strategic plan for the development of the agricultural sector (PEDSA 2011:vi). This may seem obvious, and one might expect that such a plan would already exist. But, according to Hanlon and Smart, agriculture has been a political battle-field in Mozambique:

² The bulletin can (in principle) be accessed at: <https://tinyurl.com/mz>

³ A Portuguese version of the PEDSA (2011) is accessible at: <http://www.open.ac.uk/technology/mozambique/>

⁴ These ports are located in Maputo, Beira and Nacala.

⁵ These percentages may be subject to debate, precisely due to the *extensive agriculture* practices, including *shifting cultivation*, dominating most of Mozambican agriculture at present.

How to move forward has been the subject of bitter arguments since independence, leading to policy paralysis and inaction. Government policy struggles have brought regular changes of minister and no coherent agricultural policy. Donor infighting was so intense that a policy could not be included as part of the multi-donor ProAgri aid programme, and eventually several donors dropped out. The various World Bank agriculture missions could not even agree among themselves. (Hanlon and Smart 2008:162)

According to the PEDSA, a strategic plan for agriculture is now required as an overarching framework for the wide range of strategy documents for the sector that already exist. These include the Mozambican Green Revolution Strategy, a Research Strategy, a National Programme for Extension, in addition to a Food Production Action Plan (PAPA), a National Forestry Plan and Reforestation Strategy, among others. What is needed is a harmonising framework to guide decisions. Agricultural growth requires a long-term perspective and multi-sector coordination to achieve the desired impacts on food security. The PEDSA further opens up a space for a joint vision with a long-term perspective for transforming the agricultural sector, and the creation of a consensus about funding priorities. According to the executive summary of the PEDSA, it is desirable that the country has a common platform to guide initiatives from the different actors involved in efforts to promote agricultural development. Furthermore, based on the PEDSA, the factors that now constrain the confidence of private investors in the sector can be addressed more effectively (cf. Ch. 4 in this report). It is recognised that the lack of a strategic plan is a constraint for both public investment and contributions by development partners in the agricultural sector (PEDSA 2011: vi-vii).

The PEDSA framework presents a medium to long-term vision, to a great extent guided by the Comprehensive African Agriculture Development Programme, CAADP.⁶ In line with CAADP – as well as the ToR for the present study – PEDSA's implementation approach is a value-chain approach, taking into account all the activities related to: a) the development and transfer of technologies and inputs; b) the agricultural production itself; c) activities related to processing and marketing, adding value to the products; and d) sustainable natural resource management (PEDSA 2011:vii).

What is then, in more concrete terms, the vision presented in the Plan? It actually seems that an earlier version (from October 2010) was more explicit in stating that the overall goal was basically a transformation of the agricultural sector from subsistence farming to commercial agriculture. The final version (of May 2011) seeks a balance between several objectives, where the principle of secure access to sufficient quantities of nutritional food as a fundamental human right is combined with the need to develop commercial agriculture to promote development through internal economic growth. The Operational Framework of the Plan (PEDSA 2011, Part III, Ch. 4) starts with the statement that:

The transformation of an agriculture which is essentially subsistence-oriented into commercial agriculture will not be achieved in the short term. (PEDSA 2011:59)

But to move in this direction, the Plan will be operationalised through e.g. the promotion of private initiative and emphasises the different actors' accountability and responsibilities [*responsabilização dos actores*], especially in public-private partnerships. It is further stated that in the implementation of the PEDSA, the public, private, cooperative and associative sectors, as well as civil society, all have important roles to play. **Public-private partnerships** will be favoured whenever they are applicable and advantageous (PEDSA 2011:60). The public sector will, on its part, seek to create favourable conditions for small, medium, as well as commercial producers, and provide services such as agricultural research and extension, as well as **specialised services in seeds** (PEDSA 2011:61). To follow up this role, the public sector in Mozambique will establish partnerships with international

⁶ CAADP – the Comprehensive African Agriculture Development Program – is a programme under NEPAD – the African Union's New Economic Partnership for Africa's Development. The CAADP works with 4 'pillars', aiming to: 1) Extend sustainable land management and water control systems; 2) Increase market access through e.g. improved rural infrastructure; 3) Increase food supply and reduce hunger through e.g. raising smallholder productivity; 4) Improve agricultural research and extension systems. <http://www.nepad-caadp.net> [accessed October 5, 2011].

(public) institutions, such as the international research institutions that form part of the Consultative Group on International Agricultural Research (CGIAR)⁷, following the implementation strategy delineated in PEDSA (2011:62).

Further specifying the role of civil society, NGOs and universities in particular are considered to have fundamental roles in “developing human and social capital” (PEDSA 2011:63). In more concrete terms, it is expected that these organisations and institutions will participate in the implementation of the Strategic Plan through the **organisation of producers into associations and cooperatives**, and follow up these organisation efforts with training and capacity building of farmers.

The strategic objectives are in Ch. 3 of the PEDSA defined under the four ‘pillars’:

- 1) Agricultural productivity
- 2) Access to markets
- 3) Sustainable use of natural resources
- 4) Institution building

The PEDSA defines a number of ‘results’ under each ‘pillar’, with a series of specific strategies to achieve each result. The following defined *strategies* can be seen to be of particular relevance to the issues addressed in this report, and the scope of a future collaboration programme as defined in the ToR for this study:

Under (pillar 1) *Agricultural productivity*:

- Improve farmer access to agricultural inputs and services, and especially to credit.
- Scale-up adoption of technologies that have an impact on productivity growth.
- Increase the national coverage of agricultural extension series through public and non-public extension service providers (e.g. private sector and NGOs).
- Establish Agricultural Service Centres all over the country.
- Give priority to research focusing on agricultural productivity, especially with regard to improved seeds and planting material, plant and animal disease control...
- Expand conservation agriculture as an instrument to save labour, recover degraded soils and manage humidity, including integrated packages of production and pest control management.

Under (pillar 2) *Access to markets*, there is a long list of defined strategies, including the following:

- Expand the network of rural market infrastructure, including storage facilities, in particular ensuring year-round access to areas with high production potentials.
- Ensure viable harvest credit to farmers from commercial banks with the backing of the Government.
- Promote the investment in agriculture through the development of appropriate financial products and platforms for loans to agriculture.

There is also a defined *result* of particular relevance here: **Policies to support the input markets strengthened**; which includes the following more specific *strategies*:

- Review the legal framework, policies and strategies that affect the input markets – to promote an increased involvement of the private sector in providing agricultural inputs
- Strengthen incentives for private sector involvement in agricultural inputs...
- Provide information and increase the participation of input suppliers in the formulation of policies in this area.

⁷ CGIAR has established a Consortium of research centres located on all continents, and funded through the CGIAR fund (into which Norway through the Ministry of Foreign Affairs has been a major donor). More on CGIAR, see website: <http://www.cgiar.org/>. An overview of research centres (including IITA, which is referred to as a partner in improved seeds in Ch. 3 of this report) is given on: <http://www.cgiar.org/centers/index.html>

Finally the Strategic Plan provides an overview of the programmes to be prioritised for public funding through the Ministry of Agriculture (PEDSA Ch. 4.4).

1.2 MORE COORDINATED EFFORTS?

During meetings with various donors and central partner organisations working with agricultural development in Mozambique in preparing this report our aim was to collect and seek to understand different ‘stakeholders’ views, plans, and potential involvement in future efforts to create synergies; both through forging linkages between producer organisations, and between private sector, civil society organisations and government in *public-private partnerships* (PPP). On the one hand, we heard – sometimes desperate – complaints about “public harvesting”. And one cannot deny that both private actors and NGOs in the agricultural sector have experienced that the *public* involvement has rather been “public harvesting” of private initiatives than “real” partnerships. Public servants who see signs of wealth generation or profitable productivity increase in agriculture as a field ripe for “harvest” through controls, fines, taxation... is a real problem, which has to be addressed within the public sector, and by the Mozambican government agencies themselves.

In meetings with small-scale farmers organised in association, the experiences expressed were, however, more often of lack of involvement and engagement by public sector officials:

“Agriculture Sector Services? There is a man here, but he doesn’t work. He lives in... [the neighbouring district], and only pass by the local market here – to do some controls. But he should make production plans, with us, production for the market!” (From meeting with women farmers in Nacololo, Monapo District, Nampula)

But also among externally funded development partners in agriculture, there was a call for Government presence *in* agricultural development and for government coordination of a agricultural development initiatives, programmes and projects. One of the most experienced interviewees was very explicit when he said: “All the un-coordinated efforts. It is a joke!” And he continued: “There should be a clear message from the Government; what do they want to encourage? Which initiatives do they support?”

The new Strategic Plan for Development in the Agricultural Sector (PEDSA 2011-2020) could be used to serve as a platform for different stakeholders to discuss and develop new partnerships for promoting agricultural development. It should also serve as a point of departure and a platform in the development of a new programme for forging commercial linkages between new and emerging producers’ organisations – in the form of ‘modern cooperatives’ – and a serious, high quality input provider developed on the basis of a reorganised and professionalised IKURU.

1.3 THE REPORT

Chapter 2 of the present report describes some of the most relevant aspects of the new Cooperative Law in Mozambique, which entered into force in March 2010 (*Lei 23/2009*). It also discusses the relationship between emerging new cooperatives and established, but in principle non-profit-oriented farmers associations in Mozambique. On this backdrop a brief history of IKURU as a ‘farmer-owned company’ is presented, focussing on the aspects which are most relevant to the ToR of the present study.

Chapter 3 gives broad overview of agricultural production and agricultural markets, focussing on central and northern Mozambique. In this context, market access for small-scale producers is discussed. The approaches and strategies of commercial traders, farmers’ organisations, and ‘modern cooperatives’ are given a more in-depth treatment, with a special focus on the ‘ALIMI model’. ‘Conservation farming’ is discussed in the context of production constraints and input use. Finally the chapter provides an assessment of seed production, and IKURU’s role and performance as the only company licensed to produce and sell seed in Mozambique.

Chapter 4 seeks to explain the low levels of national investments in agriculture, as well as the producers’ difficulty to access loans for investments, with reference to the high interest rates in Mozambique. These interest rates also affect short-time harvest credit, as both commercial banks and micro finance generally operate with high interest rates. Furthermore, an agri-business company such as IKURU encounters problems to present guarantees and collateral for loans. This chapter also discusses more specifically IKURU’s experiences with Banco Terra. This is a bank that was expected to provide credit for agricultural development, including smaller-scale agriculture, but at the same time operate as a commercial bank in Mozambique; and encounters challenges in fulfilling this mandate.

Chapter 5 gives a summarised presentation of existing farmers’ organisations in Mozambique, primarily based on a sub-report compiled by AMPCM, the Mozambican Association for the promotion of modern cooperatives.⁸ It also presents views and perceptions expressed in field visits organised for the authors of this report to meet with members of the farmers’ associations affiliated with IKURU, to get a better understanding of their views and priorities.

Chapter 6 provides an intake to views and attitudes characterising other categories of stakeholders – who are also potentially future partners – in the development of a network or structure of national producer organisations and specialised business units in Mozambican agriculture. The chapter shows that previous experiences with IKURU as a business partner will affect new initiatives in this field, and emphasises the need to professionalise the company. It also provides a list of elements that future potential partners in a seed supply business would consider in negotiations about joint ventures in this field.

Chapter 7 briefly summarises some main lessons learned, drawing upon the history and experiences of IKURU, Nampula, but also referring to the newly established ALIMI in Niassa, to provide a basis for further discussion of how to forge linkages of cooperation between farmers, cooperative organisations and specialised business units in Mozambique.

⁸ AMPCM – *Associação Moçambicana de Promoção do Cooperativismo Moderno*

2 HISTORICAL CONTEXT AND PRESENT OPPORTUNITIES

This chapter aims to give a historical overview of the development of IKURU as a farmer owned company, created within the existing legal framework in the first decade of the 21st century, and based on earlier work carried out by NGOs to establish farmers' associations in northern Mozambique. At present, a new cooperative legislation is in place in Mozambique, which may provide new opportunities for agricultural development. In this context, IKURU's experiences, the choices made over time, and how the company has responded to different constraints and opportunities provide a series of interesting lessons-learnt, both for new farmers cooperatives in-the-making and for international partners and donors.

2.1 A CHANGING LEGAL FRAMEWORK FOR FARMERS ASSOCIATIONS AND COOPERATIVES

A new Cooperative Law (*Lei Geral das Cooperativas*) was adopted by the Mozambican Parliament in April 2009. At this point, the general perception was that the existing legislation – in particular the Mozambican Cooperative Law of 1979 – was outdated. With the liberalisation of the economy from the late 1980s onwards, the legislation on cooperatives was considered increasingly irrelevant, and rather a hindrance than a tool for new economic development. The “old” legislation had, in part, been formulated within the political framework of the one-party socialist state of the early post-independence period, with the Government putting emphasis on highly centralised national development plans. State investments were in this period primarily directed at state enterprises, such as state farms (see also Ch. 3.2.3). But the government also sought to promote agricultural production cooperatives, in the form of so-called *machambas do povo*⁹. They were organised under the leadership of the Party's (FRELIMO's) local units, which also served as development committees – called *grupos dinamizadores*. The land cultivation was carried out collectively, and the products were to be sold to the State. Levels of production and productivity, however, turned out to be low.

In *A History of Mozambique*, Newitt holds that the cooperatives' “...managers and accountants received little training, and cooperatives took second place to the state farms in obtaining machinery and other imports...” (1995:557). At the local level, the *machambas do povo* often generated a lot of resentment among the local population. In some of the localities where these *machambas* were established all local households were required to provide not only labour but also seeds (Lubkemann 2008:125). During long-term fieldwork in the southern part of Manica Province, Lubkemann found that certain measures taken by the central Government, very soon destroyed the prospects of these collective enterprises:

...at the end of the first agricultural season trucks were sent by central authorities to cart the first harvest of the *maachambas do povo* away without any compensation to the local population. These measures triggered feelings of deep resentment, betrayal, and even outrage...(Lubkemann 2008:127).

According to the Cooperative Law of 1979, cooperatives were not established to generate individual profits, as cooperative incomes had to be returned to the organisation (Dorsey and Muchanga 1999). On the other hand, Newitt holds that “...the cooperatives that proved most successful were those that attracted experienced and relatively successful farmers who found the front of a cooperative a useful way of obtaining state aid that was denied to the private sector” (1995:557). They also seemed to work well in the green-zones that produced food in the peri-urban areas of e.g. Maputo during the Renamo insurgency/civil war throughout the 1980s. In general, however, agricultural cooperatives

⁹ “People's fields”.

were considered unprofitable and unsuccessful, and the model entered into crisis. When seeking to promote a new generation of farmers' cooperatives in Mozambique it is evidently important to emphasise the differences between the "old" and the "modern" cooperative models.

From the 1990s onward, Mozambican small-holders were increasingly organised in *associations*. Associations are in principle non-profit organisations. Within the legal framework existing up to 2009/2010, the establishment, training and legalisation of farmers associations have been promoted by various development actors (including both CLUSA and national NGOs such as UNAC and ORAM). The organisation of producers in associations has aimed at improving their access to markets and their bargaining power, as well as facilitating farmers' access to inputs and their opportunity to develop strategic relationships with traders and service-providers, in addition to capacity building. The majority of existing farmers organisations in Mozambique are at present – in principle *non-profit* – associations.

2.1.1 Characteristics of the new Cooperative Law – *Lei 23/2009*

The new Cooperative Law was published as *Lei no. 23/2009* in *Boletim da República* in September 2009, and entered into force in March 2010. A number of different organisations and projects (including ILO, CLUSA, Agrifuturo and others) had been involved in the elaboration of the new law. AMPCM – *Associação Moçambicana de Promoção do Cooperativismo Moderno*¹⁰ was formally established in January 2010 to take a lead role in implementing the law through promoting and developing *modern cooperatives* in Mozambique as a sustainable form of wealth generation. AMPCM, in collaboration with other organisations and partners, is at present working to make the new law known among potential interested parties and future beneficiaries. Making new legislation known and available, especially in the districts and rural areas, is still a real challenge in Mozambique.

The new Cooperative Law (República de Moçambique 2009, *Lei 23/2009*) provides the legal framework for a new generation of farmers' organisations, but applies to all types of cooperative enterprises (Article 1). The law is based on a notion of cooperatives as both social and economic entities; in the sense that they are simultaneously social associations and businesses, constituted by a group of people who pursue economic, social and educational objectives through an economic enterprise. Cooperatives are autonomous and independent, based on the voluntary association of its members, and under their democratic control. The members are obliged to contribute both to form a basic capital stock and in terms of goods and/or services towards an economic activity for mutual profit, but also in the sharing of risks, with the joint aim of satisfying the members' needs and economic aspirations (Article 2).

According to the Law, "cooperative acts", that is, operations or transactions between the cooperative and its members, are not considered as "market transactions", and are therefore not taxable (Article 6). The cooperatives can, on the other hand, also enter into operations with third parties (for example buying products for marketing) as a complementary activity, but these transactions are to be considered "market transactions". They must be kept in separate accounts (Article 5), and are in principle taxable. At the same time, the cooperatives can, according to Article 9, require that their members *only* realise transactions with the cooperative in the area that constitute the objective of the cooperative (for example marketing of produced grains and legumes in a farmers' sales cooperative). Cooperatives can both acquire property and raise loans. They can also join other business entities in partnerships to carry out economic activities as an association, consortium or joint venture (Article 9).

A cooperative is established by means of an enterprise contract (Article 10). Article 13 in the Law specifies what such a contract must contain. Cooperatives do not, in contrast to associations, need previous authorisation from the Government be established. A producers' cooperative (a first tier cooperative) must as a minimum have five members, while there is no upper limit regarding

¹⁰ AMPCM – Mozambican Association for the Promotion of Modern Cooperatives – has also provided substantial inputs to the present chapter.

membership. Second-tier cooperatives are constituted with first-tier cooperatives as members; and they must as a minimum have two members (Article 11).

A cooperative needs an initial capital stock (*capital social*), with an initial minimum capital amount to be decided in the statutes of each cooperative (Article 15). Based on this, each cooperative member needs to subscribe to a minimum capital entry, and receives the equivalent *capital bonds* (*títulos de capital*). The cooperative's statutes can, however, also open up for capital entries proportional to the economic activities of each cooperative member (Article 18). This capital can be raised in cash, but also in the form of assets, rights or services (up to 50% can be non-cash). The flexible capital requirements are aiming to facilitate the formation of cooperatives in rural areas where access to capital in cash may be very limited (cf. Article 20). The members' capital bonds, which together are represented in the capital stock of the cooperative, have a nominal value decided in the cooperative's statutes. Each cooperative has a Social Fund (*Fundo Social*) which is constituted by the (initial) capital stock, in addition to e.g. earned interests on loans, retained surpluses, profits from operations with third parties (cf. Article 5) added over time.

The general assembly of the cooperative (*Assembleia Geral*) can decide to pay interests on the capital bonds when there are surpluses on the business operations. The surpluses of the operations of the cooperative may be distributed among the members, but only after compensation for losses from previous operations has been paid, and after the cooperative's own reserves have been re-established (Article 79). The capital bonds (*títulos de capital*) of a member are in principle transmittable, but only after the issue has been discussed by the General Assembly. The capital bonds can only be transmitted to a cooperative member, or to a person fulfilling the requirements to become a member, and soliciting his/her admission to the cooperative (Article 22).

Admission to a *first tier cooperative* (*cooperativa de primeiro grau*) is open for all persons, singular or collective, who develop and/or are qualified to develop the activities pursued by the cooperative (this also applies to collective members). All members must further meet the legal requirement of the Law and the conditions specified in the statutes of the cooperative (Article 29). The rights of the cooperative members are specified in Article 30 of the Law. These include the right to attend the general assembly, to present proposals, vote, elect and be elected, in addition to enjoy the material, financial and social benefits resulting from the cooperative activity (Article 30). In the first-tier cooperatives, each member has at least one vote (Article 52). If the statutes of the cooperative provides for a periodic adjustments in terms of distribution of capital stock (in bonds) proportional to members' economic operations with the cooperative, there is also a possibility to adopt proportional voting. The maximum for any member in case of proportional voting is, however, seven votes in the General Assembly.

The social organs (*órgãos sociais*) of the cooperative are, according to the law: the General Assembly, the Direction, and the Supervisory Board/Supervisory Entity (Article 36). Article 37 specifies the rules for their election, and details regulations for renovation of the mandate of the elected social organs and the re-election of their members. The members of the Direction and the Supervisory Board are elected in the General Assembly to serve in their mandate for a period of three years. This three-year mandate can for an elected member be renewed up to three times (3 x 3 years) by the General Assembly. At the level of the Direction as such, the mandate of at least one third of its members must be renewed. At the level of the Supervisory Board, only one third of its members can be re-elected.

The Law gives an opening for "delegated assemblies" (*assembleias delegadas*). This means that the cooperatives in their statutes may provide for the organisation of meetings to elect delegates to serve as members' representatives in the general assembly (Article 56). This provision is meant to facilitate representation of a larger number of members who, for reasons of e.g. geographic distance and the costs involved, would otherwise not be able to participate in the decision-making processes of the social organs of the cooperative.

The Direction (*Directiva*) manages the cooperative. It must be composed of a minimum of 2/3 cooperative members (Article 57). In a cooperative with more than 30 members, the Direction must have at least three members: one Chairman (*Presidente*) and two ordinary members (*vocais*). If the cooperative has less than 30 members, the elected Direction consists in, as a minimum, one Chairman (and his/her appointed deputy). The Direction can, with the aim of securing a professional and effective management, contract managers with special technical or commercial competence and delegate to them management powers, with the exception of those areas that according to the Law are reserved for the democratically elected social organs.

The role of the Supervisory Board (*Conselho Fiscal*) is to regularly supervise, control and monitor the management of the cooperative (Article 62). If the cooperative has more than 30 members, the Supervisory Board must consist of (at least) three members. Cooperatives with less than 30 members require one member to be elected to serve as a Supervisory Entity to oversee the management of the cooperative. When the Supervisory Board consists of (at least) three persons, more than two thirds must be members of the cooperative. Furthermore, if management of the cooperative has been outsourced to third parties (through contracts with external managers with special competence, see above), the Law requires that the annual accounts are audited by an external independent entity.

Article 82 of the Cooperative Law provides for the transformation of existing producers associations (*associações de produtores*) into modern cooperatives if they comply with the requirements established in the law. On the date of such a transformation, the accounts of the association have to be closed, and the assets and properties of the association are then transferred into the capital stock of the new cooperative. Article 82 of the new Cooperative Law is thus clearly intended to facilitate the transformation of e.g. farmers associations into modern cooperatives.

As part of the field visits carried out to prepare the writing of this report, we had the opportunity to visit one (actually the first) farmers' cooperative to be created within the framework of the new law, ALIMI in Niassa Province (see also Ch. 3.2.6 and 3.2.7). We also visited several farmers' associations with potentials and/ambitions to form cooperatives (more in Ch. 4).

2.1.2 Organisation of farmers in associations – central and northern Mozambique

With the enactment of the new Cooperative Law of 2009, both the former Mozambican cooperative law of 1979 (Law 9/79) and related legislation from before 1979 were repealed. However, legislation enacted since the 1990s providing a legal framework for farmers *associations* is still in force, such as *Lei das Associações* (Lei 8/91), which deals with associations in general¹¹, and *Decreto 2/2006* on associations in agriculture. The 2006 Governmental Decree was the result of considerable pressure and lobbying from civil society organisations. It deals specifically with the constitution of farmers associations, and simplifies registration and legalisation of rural associations at District level.

Within this formerly established legal framework for *associativismo*, a large number of farmers associations were established in central and northern Mozambique, often with support from non-governmental development agencies such as World Vision, CARE and CLUSA. The following description is taken from the historical overview provided by CLUSA – Nampula as an input to the current report:

USAID and other USAID funded organizations such as Care and World Vision began working with small holder farmers in Mozambique in 1995, using a methodology for organizing farmers into self-governed and financed village based associations. They recognized that individual small scale producers lacked market information, knowledge of the true market value of their produce and the power to negotiate with buyers. Farmers frequently sold their product to local traders offering lower prices, often to the first buyer to make an offer. However, by forming associations farmers were able to take advantage of

¹¹ The 1997 Law on associations may at present also be subject to a process of revisions, where several NGOs have been involved, cf. <http://www.joint.org.mz/joint/noticias/anviewer.asp?a=164&z=99>

benefits of working in groups - such as increased economies of scale, improved access to inputs and the ability to work off forward contracts - that they would not have received on their own. Early efforts therefore focused on assisting the organization of farmer associations known as member-owned and member-operated businesses (RGBs). Farmer members were trained in improved farming practices as well as governance skills such as literacy, numeracy, conflict resolution, meeting facilitation, agendas, democratic governance practices and business skills. Crops were also identified which were suitable to small holder profit in the region, such as sesame and soybeans.(CLUSA 2011:5)

A second step, where CLUSA also provided support, was to organise the associations into *fora*, as secondary-level units of 8 –10 associations. While the creation of first-level associations was a priority in the period 1995-1997, from 1997 onwards attention turned to the formation of groups of associations as (secondary-level) *fora*, with the aim of facilitating product aggregation, commercialisation, and input distribution. But realising that even at *fora* level, associations of small-scale producers lacked the necessary capacity to operate effectively as agricultural-market actors, CLUSA also supported the formation of marketing centres, called CAN – *Centro de Apoio a Negocios*, intended to serve 3-4 *fora*. The intention was that the operation of these centres would be paid for by the farmers through the member associations and *fora*. On their part, the CAN would facilitate commercialisation and provide basic inputs and services, much like a modern farmers *cooperative*. At this time, however, IKURU was also created. And while support for the CANS ceased, the farmers preferred to deal directly with IKURU as a service provider and marketing company.¹²

International NGOs have often been criticized for being more concerned with production than with marketing, also when supporting the creation of producers associations. In their book *Do bicycles equal development in Mozambique?* Hanlon and Smart hold that: “Markets and marketing are the biggest missing piece in the jigsaw” (Hanlon and Smart 2008:18). They claim that even for the most successful associations – the NGO-project showcases – marketing remains a big challenge. Focussing on Nampula Province, they find that over time, associations formed as producers’ associations tend to have taken on the role of social associations, providing services such as literacy classes and information on improved nutrition to members, with the support from international NGOs (Hanlon and Smart 2008:18). During the field visits for this study, we could also observe this phenomenon, and also had the opportunity to listen to local members’ views and concerns (see Ch. 4).

Here we would, however, argue that in the context of the changing legal framework in Mozambique, the role of *farmers’ associations* in the long run has to be that of social non-profit associations. At present, in their commercialisation efforts they may even be said to operate on the margins of existing legislation on *associativismo*, which in principle is to be *non profit*. It brings up the dilemma of dependency on support from external sources – e.g. international NGOs. On the other hand, experience of many Mozambican churches is that civil society entities *can* also to a considerable extent be self-sustained. At the same time, the new Cooperative Law provides a framework for business-oriented initiatives, including *farmers’ cooperatives*, to operate as entities that specialise in business transactions for the benefit of their members. A “division of labour” between associations and cooperatives would also imply a clearer distinction between efforts to promote *civil-society* activities and efforts to promote *private-sector* development in rural areas. It would further require a clearer division of labour between different development agencies and NGOs in their efforts to organise rural people for development.

As will become fairly clear in the following, IKURU has operated at the “interface” of business operations and NGO-related activities. As a farmer-owned company IKURU has sought to combine the different rationalities, expectations and priority structures of NGOs and businesses. In this way the company has also tried to span *business* and *civil society*. This has been a challenge, and maybe one of IKURU’s more fundamental problems since it was established in 2003. Now, it can be argued that

¹² Farmers’ perceptions will be discussed in more detail in chapter 4.

the new Cooperative Law in Mozambique is based on a notion that modern cooperatives are precisely *both* social and economic entities (see above). But, as “modern” cooperatives, they are created to operate in a market.

2.2 HISTORY OF IKURU: STRUCTURE, OWNERSHIP AND PRESENT CHALLENGES

IKURU was formed in 2003 as a producer owned marketing company. Its producer basis was “21 of the strongest *fora*”(CLUSA 2011:5) created with CLUSA support (see above). As a producer-owned company, IKURU was established with the support of various external organisations. It needed both initial start-up capital, people with knowledge about commercial agriculture, markets and marketing, and people with business experience. IKURU should, according to its statutes, carry out the following activities(CLUSA 2011:6):

- a. Activities related to the distribution of agricultural inputs;
- b. Technical assistance to farmers to improve their production;
- c. Storage of inputs and commodities;
- d. Activities relating to the operation and management of infrastructure for its agricultural services;
- e. The promotion of better use of land resources through the introduction of improved technologies;
- f. The purchase, processing and packaging of agricultural products;
- g. Import and export;
- h. Marketing;
- i. Other activities required in product value chains, from production through to placing product on national or international markets

The company’s formal structure and the ownership arrangements chosen was, given the legal framework in force in 2003, a *limited liability company*¹³, with three main shareholders. According to IKURU’s legal statutes, each of the three shareholders would have one vote in the company’s General Assembly. The 21 farmer *fora* that first joined the company (then representing about 9500 producers) were according to the statutes to be represented as one of three shareholders. At the time, the producers owned 10% of the company shares. The two other shareholders, GAPI¹⁴ and NOVIB¹⁵, each held 40% of the shares. At present, IKURU has 28 farmer *fora* shareholders, which each have the right to send one representative to the General Assembly. However, before decisions are made at the General Assembly, these have to get together to decide on how to use their single vote.

IKURU’s institutional governance structure is basically as follows:

- General Assembly (*Assembleia Geral*) where GAPI, NOVIB and the producers’ representatives each have one vote
- Board of Directors (*Conselho de Administração*) where the producers have 3 delegates, and GAPI and NOVIB each have one delegate (GAPI’s representative is at present Chairman of the Board)
- Fiscal Council (*Conselho Fiscal*)

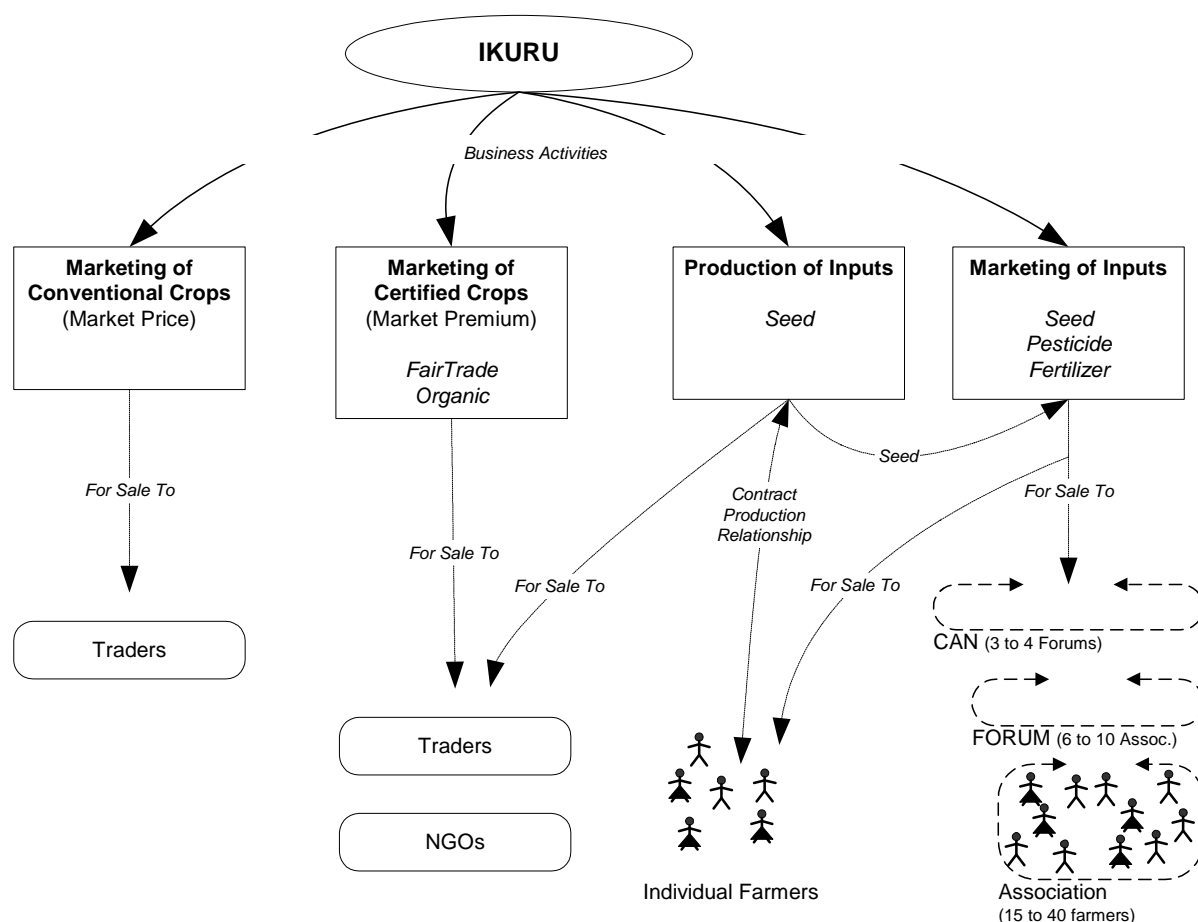
The structure of IKURU’s activities at present can be visualised as follows:

¹³ SARL – *Sociedade Anónima de Responsabilidade Limitada*

¹⁴ GAPI – *Gabinete de Apoio à Pequena Indústria* – is a Mozambican development financing institution based in Maputo and operating since 1990, combining economic support (credit) with business support services.

¹⁵ NOVIB (Dutch organisation for international aid), has since 1994 been an affiliate of Oxfam International, and has been active supporting small-scale farmers in northern Mozambique. It entered as a major shareholder in IKURU with the explicit aim of transferring its shares to the farmer members within a relatively short time span.

Figure 1: Company activities¹⁶



Since it was established, IKURU has widely been referred to as a success story – one of relatively few success stories about development of small-scale farmer agriculture in Mozambique. In their book presenting critical analyses of post-war development in Mozambique, Hanlon and Smart see assistance to smallholders in marketing their produce as essential to promote “real development”, and write that in this regard “Ikuru is apparently unique in Mozambique” (2008:21). They further describe IKURU’s operations in the following way:

Ikuru has grown steadily, from marketing 300 tonnes of peanut, sesame, and beans in 2004 to 2000 tonnes in 2006. It sets a floor price and signs contracts with producers in January, at planting time, and then buys in May and June. Members are guaranteed 0.5 MT (2 US cents, 1 p UK) per kg over the prevailing market price. Ikuru also provides seed on credit, and in the marketing period advances money to its member associations to buy from their farmers. (Hanlon and Smart 2008:21)

Since its creation, a substantial part of external support for IKURU as a pilot farmer-owned business in Mozambique has been organised through two institutional development projects supported by an “Alliance”, GDA¹⁷. The first GDA project period was 2003 – 2007, the second project period was

¹⁶ Cf. CLUSA 2011:7.

¹⁷ GDA – Global Development Alliance – involved both non-governmental organisations and private businesses to support producer-owned companies.

2007 – 2010.¹⁸ The final report from the first period presents ambitious plans to transfer a larger share of company ownership to the farmer members:

The initial assumption was that over a 5-year period IKURU would buy-out two of its main shareholders whereby dividends accruing to the FORA would be converted to equity (i.e. shareholdings). Given the slower-than-expected take-off of the trading business, the transfer of ownership has not been initiated. (CLUSA 2007:15)

By the end of the first GDA project period, a new proposal for progressive transfer of majority ownership from outside investors to farmer members by 2009 had been approved by the General Assembly. The plan was to reduce NOVIB and GAPI ownership from 90% in 2006 to 45% in 2009. During the same period, producer shareholding was projected to increase from 10% to 50%. The remaining 5% could, according to this plan, be transferred to others, e.g. IKURU management (CLUSA 2007:15). In 2011, the status is as follows: GAPI and NOVIB each own 44.15% of the capital (i.e. shares). The producers' shareholding has increased as a result of new farmer *fora* joining IKURU. The number of farmer *fora* shareholders has risen from 21 to 28, while farmer shareholding has increased by 1.7% to 11.7% of the total (CLUSA 2011:10-11). Thus the planned conversion of dividends to equity, with the farmers substantially increasing their role as shareholders, has not been achieved.

According to an historical overview report provided by CLUSA,(2011:9):

Much negotiation took place with a variety of potential investors before Gapi and Novib were decided upon as the two main shareholders. However, most of these, particularly trading companies such as Export Marketing, demanded full control of the company in addition to large shares of the company dividends. Their interests lay in their own profit rather than the overall aim of serving IKURU's farmer members.

Among the reasons for involving GAPI and NOVIB as main shareholders was that:

Unlike other potential shareholders, they did not request a financial return on their investment; their primary interest was to support the development of a producer owned trading company. Their investment potential was seen as long term and would not be withdrawn at the first sign of company difficulties.(CLUSA 2011:10)

As investors, GAPI and NOVIB from the start shared "a development mindset", aiming to support IKURU's farmer members rather than making "profits from commodity trading at the expense of producers" (CLUSA 2011:10). When IKURU after a number of years basically still fails to make a profit, it may be easier to see other implications of the role these institutions had assumed as shareholders in the company:

Although not demanding financial gain from the company, Gapi and Novib's lack of a vested financial interest in the company resulted in a disconnect between ownership and business outcomes. Only the smallest shareholders, the farmers, are dependent on the success of IKURU...(CLUSA 2011:17)

This success, i.e. reasonable economic success as a trading company, has not materialized in the way both shareholders and external stakeholders had hoped and expected when IKURU was established in 2003, and during the first fairly promising years. To increase profit margins, IKURU's management

¹⁸ Among the partners and funders in the first project period (which also included a company in Zambia) were CLUSA (US), NOVIB (Oxfam Netherlands), GAPI Sarl (Mozambique), VSO – Volunteer Services Organization, Twin Trading Company Ltd (UK). Norges Vel and FK – Felleskjøpet (Norway) entered as partners in the second project phase (2007-2010). The support from Norges Vel has primarily been aimed at establishing the input supply business in IKURU.

in 2010 decided to concentrate trading activity to fairtrade/organic certified crops, in addition to seed multiplications. Thus the marketing of conventional crops, where the interests of the majority of IKURU's farmer shareholders lie, was left outside the company's priorities. But as a *farmer-owned company*, IKURU also had the opportunity to seek funding from external NGOs to support specific activities. Over time, this seems to have led IKURU into a trap – of trying to comply with both business and NGO-project norms and requirements:

With the inability to reach critical mass in trading and input supply businesses, IKURU has undertaken a strategy of taking on more and more NGO support. A significant portion of IKURU's operations are supported by NGO funds and the company is operated at times more like an NGO than a business operation. This helps to sustain the business, yet management and staff time is consumed with implementing programs and reporting on them, rather than driving the company. (CLUSA 2011:22)

One the one hand, one can easily see why support from diverse NGOs was sought – and offers accepted – as a solution to the company's economic problems at specific points in time, as such support would create a broader, though short-term, basis for regular incomes. On the other hand, as pointed out in an earlier assessment: "NGOs come to IKURU to further their own project initiatives" (Mahoney 2010:8). IKURU itself had, furthermore, from the start a series of different stated objectives (see above), and was met with an even wider range of expectations. Among these were both *technical assistance to farmers to improve their production*, the *introduction of improved technologies* (explicitly stated, see above), and capacity building more broadly. In this situation, NGOs' working methods and NGOs' "work cultures" could in many ways be seen to offer good alternatives to a more old-fashioned business culture taken over from the Portuguese colonial power. Which is described in the following way by Hanlon and Smart:

[In Portugal]...engineers all saw themselves as being trained to be managers, usually for foreign firms. Their goal was to sit in a glass-windowed office above the shop floor. Portuguese engineers did not get their hands dirty; they had meetings with lower-level people who actually dealt with the workers... This was, in large part, the heritage of four decades of fascism, in which everything was planned and independent thinking not encouraged. It was also the role of Portuguese managers in Mozambique. Even in the smallest shop, the Portuguese owner would just sit at the till and order the black workers to do things, while in larger businesses the manager would never touch the machinery. With few other role models, it is hardly surprising the many Mozambicans assumed that that was how you ran a business. (Hanlon and Smart 2008:190).

IKURU is at present (2011) undergoing extensive stocktaking, intensive scrutiny, external studies and consultancies (including this report), in addition to self-evaluation. Several contributions and inputs by Rosemary Mahoney (from US-based CoopMetrics) have dealt with organisation and management problems, provided timelines for reorganisation and transition plans, in addition to discussing different possible options for a new operating and ownership structure of IKURU. As an external consultant who has followed IKURU's development since its establishment, in September 2010, she briefly sums up the company's performance over the years as follows:

It is clear that IKURU's business was growing and profitable in 2006 and 2007. Volumes traded were increasing annually and IKURU was profitable, albeit trading lower volumes and less profitable than projected. IKURU was gaining experience in trading, exporting, fair trade and other critical areas. Beginning in 2008 and continuing in 2009 the company significantly underperformed with decreasing trading volumes, serious quality control problems and operating losses. (Mahoney 2010:1)

She further holds that: "Currently IKURU is not a successful business and needs ownership, governance and management changes that fix its business shortcomings while retaining its

commitment to small farmers” (Mahoney 2010:12). One explanation for this lack of success is that: “IKURU...is operating in too many value chains and falling short of success in all of them” (Mahoney 2011:4). As a result, most stakeholders have reported that they are frustrated with IKURU’s lack of follow up, and that they see IKURU as an unreliable business partner. This is serious for a company that is meeting increasing competition in the present market situation of northern and central Mozambique (see Ch. 3). A related issue and a fairly serious problem for IKURU has been the company’s management problems. While administration and management problems in IKURU are basically outside the scope of this report,¹⁹ what we can observe is that management changes are now being implemented, and it has been a priority of the present Board, and Chairman of IKURU’s Board, to address these issues. To the extent possible they have also sought to resolve these problems within the established management and ownership structure of the company. This means they are now seeking to strengthen leadership and management systems *before* venturing into new structure and ownership arrangements and/or expansion. IKURU also urgently needs to improve technical management and quality control, as will be further elaborated in Ch. 3. Altogether this means that IKURU requires – at least – a period of *bridging funding* to consolidate before it can even be considered to be in a position to enter a new phase of expansion. Such a phase *could* involve creating new partnerships and regional linkages with emerging farmers’ cooperatives, together with a reorganisation of IKURU as part of a larger regional or national inputs supply business in Mozambique, as delineated in the ToR for this report (cf. Annex 1).

2.3 OPPORTUNITIES BASED ON THE NEW LEGISLATION

The new Cooperative Law (*Lei 23/2009*) involves a number of advantages compared to the previous legislation, and in this way also provides new opportunities for farmer cooperatives established under the new law as *modern cooperatives*. The advantages that are most relevant for small-scale farmers and agricultural enterprises can be briefly summed up in the following bullet points (cf. AMPCM 2011)²⁰:

- Based on the new Cooperative Law, *modern cooperatives* can concentrate on *one single economic activity*, where a group of producers see they have conditions to compete in the market, and where they can generate economic returns.
- Through a set of contracts, and based on commitment from coop members, a cooperative will be in a position to *control both quantity and quality of the product* offered as a market commodity.
- The cooperative offers *incentives to the coop members* to contribute to the enterprise with *risk capital*.
- The cooperative offers to its members shares of the profit and voting rights (to a certain degree) *proportional* to the investments of each member.
- The cooperative member can through investing in and signing marketing contracts with the cooperative establish a *stable relationship* which in principle involves securing *access to markets* for the product(s) commercialised by the cooperative.
- Based on a contractual relationship between the cooperative and its members, the cooperative is basically *market-oriented*, both in the sense of seeking to satisfy the needs and requirements of its members, and its customers.

With reference to the new legal framework, what are the main differences between *modern cooperatives* and *farmers’ associations*?

- Cooperatives are organised to carry out an *economic activity*, while associations basically are meant to be involved in *non-profit* activities.
- The cooperative operates on the basis of a *social capital*, with investments from its members, while associations are not formed on the basis on such capital investments.

¹⁹ Cf. Annex 1.

²⁰ Based on the report by AMPCM, attached as Annex 2.

- The profits generated by a cooperative can finance *service provision* to its members, while an association is not established to generate profits, but to carry out social, educational, cultural or recreational activities.

In order to assess and discuss more specifically which opportunities the new legal framework represent, not only for IKURU, but also for the creation of new linkages between new emerging farmers' cooperatives – and established farmers' associations – it is necessary to place it in the broader context of agricultural production. Chapter 3 will therefore provide an essential overview of the present production and market situation, and on that basis delineate the requirements and future potentials for agricultural producer organisations, focussing on northern and central Mozambique.

3 PRESENT MARKET SITUATION AND MARKET POTENTIALS FOR AGRICULTURAL PRODUCER ORGANIZATIONS

The main objective of this chapter is to assess and discuss the linkages between increased investments in agriculture and access to markets. In this context, the challenge to IKURU is how to increase both production and market access while securing an acceptable quality of products.

3.1 PRODUCTION AND MARKET INFORMATION

3.1.1 Geographical scope

This report is concerned primarily with arable crops in northern Mozambique. It draws upon field visits to the provinces of Nampula, Niassa and Zambezia undertaken in May 2011 and statistical data for the seven provinces of the ‘northern region’ (Niassa, Cabo Delgado, Nampula, Zambezia) and the ‘central region’ (Tete, Sofala, Manica). Even though the study terms of reference (Annex 1) specify the development of ‘national producer organisations and specialised business units’ in Mozambique, it is clear that the potential for arable agriculture lies primarily in these central and northern regions of the country.

Thus, of the 5.6 million ha of cultivated land in Mozambique, more than half is located in the northern region, with two provinces, Nampula and Zambezia, accounting for 37 percent. All but four percent of cultivation takes place on small-scale farms, defined in the recent agricultural census (CAP, 2011) as having less than 10 ha of cultivation (or less than 5ha of irrigated land or orchards) and less than 10 head of cattle, 50 head of goats/pigs/sheep, and 2000 birds (poultry). Larger-scale farming is concentrated in certain areas, notably in the Central region (Tete) in the case of ‘medium scale’ and in Northern region (Nampula) and southern region (Maputo) in the case of large-scale farms (see box 3.1 on farm scale criteria). However, only in Maputo Province, where large-scale farms account for 24 percent of cultivation, does small-scale farming make up less than 90 percent of the total area cultivated, and in most provinces small-scale cultivation is more than 95 percent of the total.

Box 3.1 Criteria of farm scale (CAP, 2011)

‘Small Scale Farms’ meet all of the following criteria:

Non-irrigated area (ha): <10ha

Area of irrigation / orchards / plantations / floriculture: <5ha

<10 cattle; <50 goats, sheep or pigs; <2000 poultry

‘Medium Scale Farms’ exceed any of the above criteria, but meet all of those below:

Non-irrigated area (ha): <50ha

Area of irrigation / orchards / plantations / floriculture: <10ha

<100 cattle; <100 goats, sheep or pigs; <10000 poultry

‘Large Scale Farms’ exceed any of the above criteria.

3.1.2 Agro-ecological context

Much of the northern and central regions of Mozambique may be characterised as ‘Guinea savanna’ (World Bank, 2009: 25) with annual rainfall averaging between 800 and 1200 mm providing a growing season of between 5 and 7 months. The World Bank (2009: 26) has claimed that of 54 million ha of Guinea savanna in Mozambique, only 2.1 million ha are currently cropped. However, this is less than half of the 4.7 million ha recorded as cultivated in the northern and central regions in the 2009-10 agricultural census (CAP, 2011). Moreover, crop growing conditions are significantly modified by altitude and topography. Altitude increases from east to west. Rainfall patterns are summarised in Table 3.1.

In general, lower temperatures and higher average rainfall accompany higher altitudes, so that cropping systems change, with cassava/sorghum/maize/*nhemba* predominating in lower, hotter and drier areas, and maize/*feijão manteiga* becoming more dominant at higher and cooler altitudes. A number of other crops are grown across the altitude range, including sweet potato and pigeon pea. Cash crops sesame and cotton are grown in lower and mid-altitudes, soybean more at higher altitudes. The data in table 1.1 indicate that coastal areas may vary greatly, with some receiving very high rainfall (Beira and the Sofala coast) while others (Membra and Mossuril) are extremely drought-prone. Drought risk is indicated by two figures in table 1.1. The first is the annual rainfall received with 75% probability (i.e. annual rainfall is likely below this level in one year in four). The second is a ratio between this 75% rainfall probability in December, when most crop planting is undertaken, and the evapotranspiration (water demand) in that month. A value of 1 would indicate that in three years out of four, rainfall would be likely to be equal potential evapotranspiration (PET). Lower values would indicate greater likelihood of shortages of water in crop establishment. Although not precise (PET is not the same as crop water demand at early growth stages), this indicator of drought hazard at the start of the growing season suggests higher risks at lower altitudes. There are nonetheless local departures from such a relationship, with lower drought hazards indicated for sites in upper Zambezia (Gurue, Alto Molocue and Mocuba) than for other sites at comparable altitudes, indicating the influence of nearby higher altitude terrain (peaks of up to 2100 m in the case of Gurue).

Drought risk is not limited to the sowing season, since dry spells may occur throughout the growing period. This also varies according to altitude. In January and February mean monthly rainfall is between 220 and 240 mm in Lichinga, Nampula and Chimoio. However, while this would be spread over 22 days per month in Lichinga (1364 m altitude), in Nampula and Chimoio it would typically be spread across only 16 days each month. The importance of rainfall as the major constraint to crop output is also evident in the Ministry of Agriculture’s farm survey (TIA) data for 2002-8 (INE, 2011). This shows that lack of rain is identified as the single most important reason for crop loss, by huge margins in the central provinces and in Zambezia and Nampula. In the less densely populated northern provinces of Niassa and Cabo Delgado rain as a factor in yield loss is in some years rivalled by damage by wild animals.

An important component of all cropping systems is the cultivation of wetlands and valley bottoms, typically for rice in the rainy season and for vegetables (including green maize) in the dry season. Since these are sites of most reliable availability of water and of accumulation of soil fertility, they offer potential for more intensive use of other inputs, although whether such input use will take place will depend heavily on the dynamics of markets for agricultural production.

Table 3.1 Summary of rainfall in northern and central regions*Data from Westerink (1996)*

Altitude (m)		Province	Annual (mm)		December Rainfall/PET
			mean	P=75%*	P=75%*
Sites > 700m					
1363	Lichinga	Niassa	1124	1038	1.75
1270	Ulongwe	Tete	921	771	1.21
736	Lioma	Zambezia	1015	868	0.99
734	Gurue	Zambezia	1913	1619	2.07
732	Chimoio	Manica	1054	899	0.78
Sites between 400 and 700m					
625	Malema	Nampula	970	761	0.98
588	Cuamba	Niassa	974	831	1.06
563	Alto Molocue	Zambezia	1015	868	1.47
432	Nampula	Nampula	1139	939	0.92
Sites <400m					
311	Montepuez	Cabo Delgado	937	820	0.73
200	Namapa	Nampula	993	850	0.57
149	Tete	Tete	656	535	0.59
134	Mocuba	Zambezia	1223	1033	1.08
57	Nhamatanda	Sofala	923	768	0.68
Coastal sites					
7	Beira	Sofala	1569	1297	0.92
14	Memba	Nampula	739	687	0.55
15	Mossuril	Nampula	902	772	0.29

* rainfall with 75% probability (lower rainfall likely in one year in four)

3.1.3 Arable crop production trends

A time series of production data generated by the Ministry of Agriculture's agricultural survey (TIA) from 2002 to 2008 (INE, 2011) allows some assessment of production trends. For the purposes of this report the crops of principal interest are cereals, oilseeds and grain legumes. Data on tobacco and cotton are also included for comparison. It needs to be recognised that important staples (sorghum and cassava) are thus omitted, together with horticultural crops and both *Ipomoea* (sweet) and *Solanum* potatoes. Both these latter are important cash crops in certain areas. The discussion of arable crop trends is thus not a comprehensive one.

At the national level the TIA data suggest levels of production of maize and sorghum (Fig 3.1), rice, groundnut and cowpea (Fig 3.2) showed little overall change in production from 2002 to 2008. Production of tobacco and cotton (Fig 3.3) appeared to have risen over the period 2002 to 2006, but in subsequent years diminished to the level recorded five years earlier. For sesame and – at a much lower level – soybean, the data suggest an overall increase in production in the period 2002-8. For soybean there is also evidence (Technoserve, 2011) that this increase has continued since 2008, reaching about 20,000 tons in 2011. The data for 'beans' (Fig 3.2) also appears to show an overall increase in production on the order of 45 percent, from about 90,000 tons in 2002-3 to about 130,000

in 2006-8, although this is a composite figure that includes haricot-type or kidney beans (*Phaseolus vulgaris: feijão manteiga*), pigeon pea (*feijão boer*), bambara groundnut (*feijão jugo*) and mung bean (*feijão holoco*). As such, it is hard to interpret, since it reflects a combination of different factors in different parts of the country.

The production data trends are broadly reflected in data for agricultural exports which have been assembled from a variety of sources, and presented graphically for 2006-9 in Figure 3.4. These underline the importance of tobacco, accounting for about 50 percent of crop export value, and sugar, but also confirms the rising importance of exports of grain legumes and sesame. In 2009, these rivalled the value of more traditional exports of cotton and cashew.

Figure 3.1 National maize and sorghum production (tons) 2002-8
(data from TIA, accessed at:)

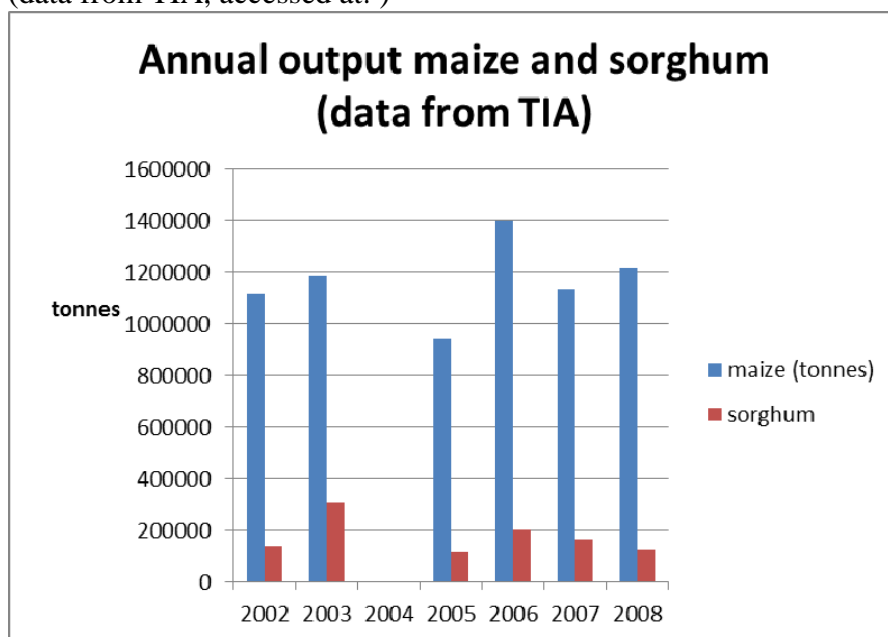


Figure 3.2 National production of rice, groundnut, beans and cowpea 2002-8
(data from TIA)

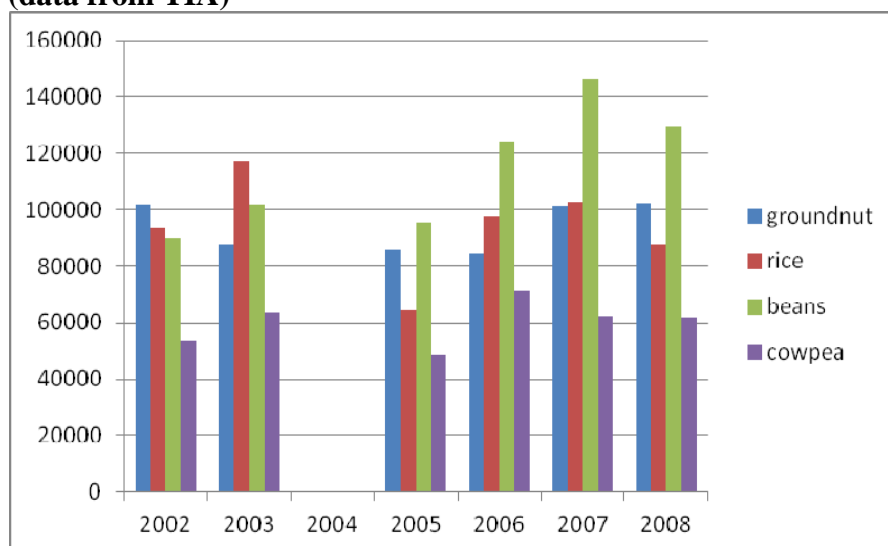


Figure 3.3 National output of sesame, tobacco, cotton and soybean 2002-8. (data from TIA)

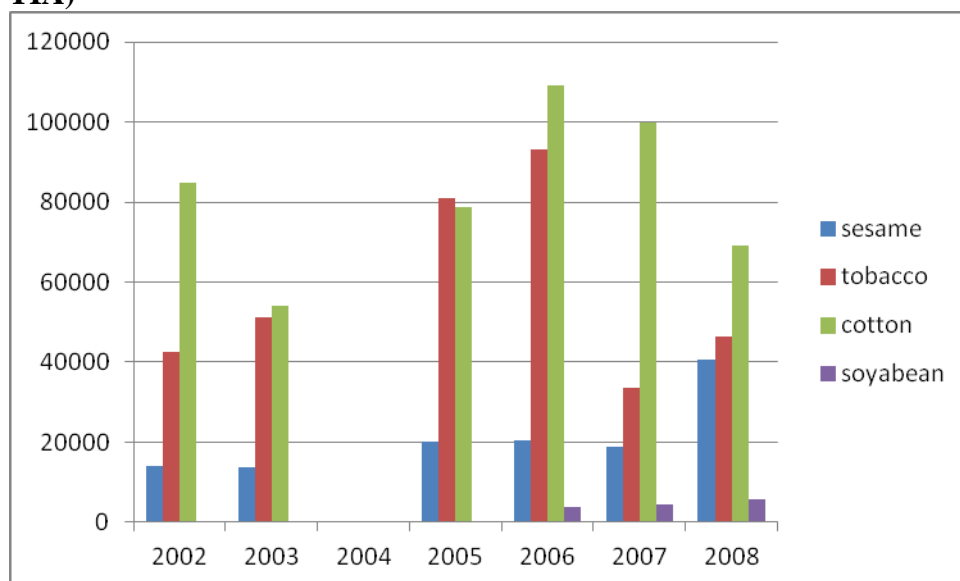


Figure 3.4 Agricultural export values (US\$ million) 2006-9 (INE, 2011)

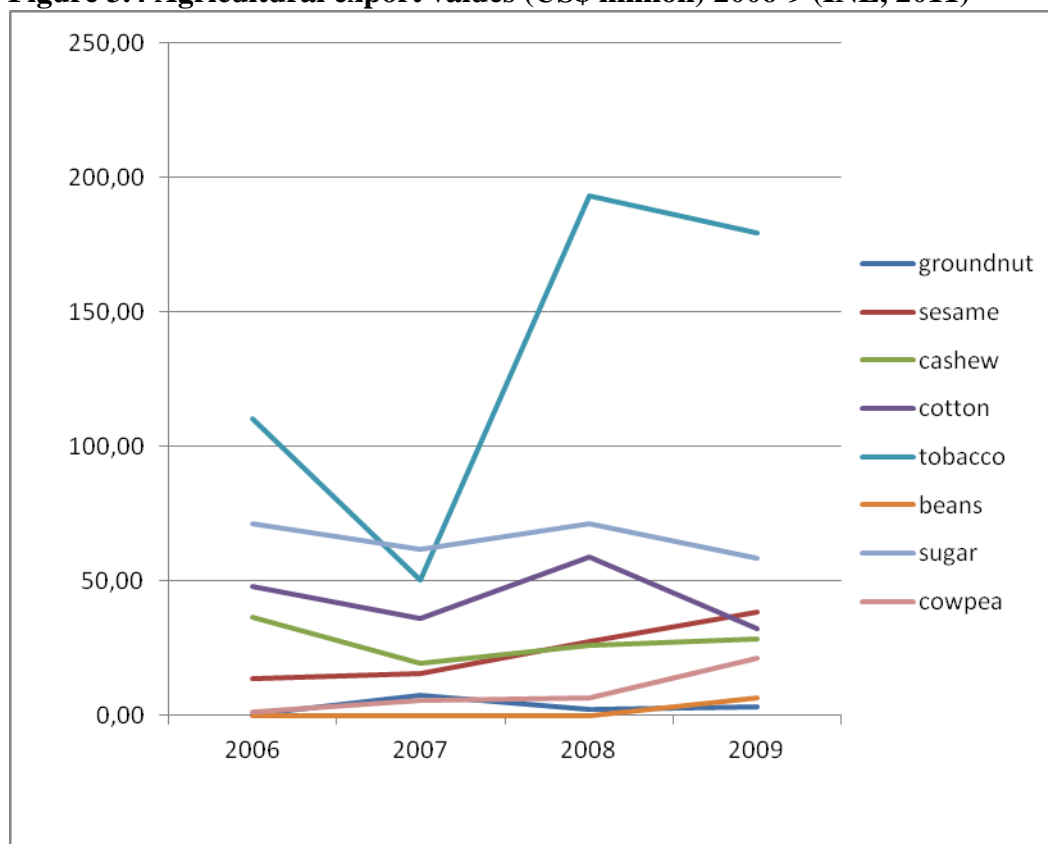
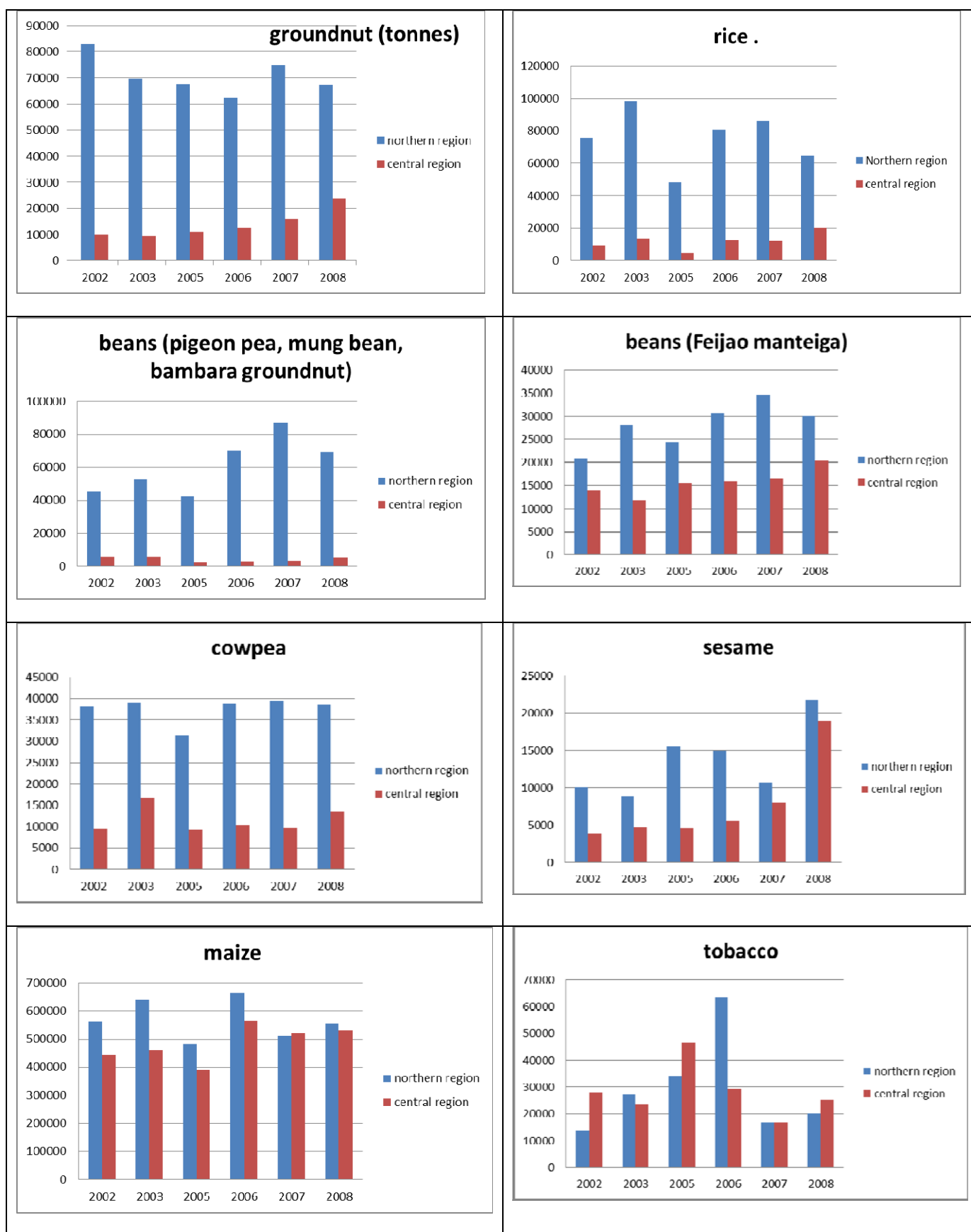


Figure 3.5 crop production (tons) in northern and central regions 2002-8



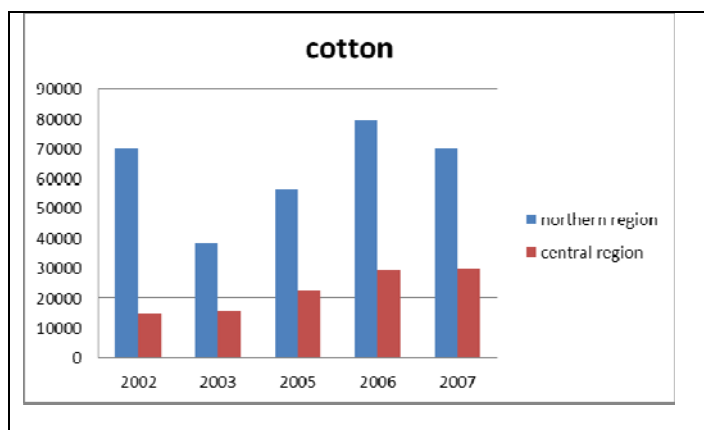


Figure 3.5 (continued)

The TIA data for crop production in 2002-8 for each province and each region are summarised for north and central regions in Figure 3.5. These largely re-state the picture from national aggregates:

Groundnut: production in the northern region largely static at about 60 thousand tons per year, with declining production in Niassa and Cabo Delgado compensated by increases in Nampula and Zambezia. Production in central provinces increased from 10 thousand tons in 2002 to 20 thousand in 2008, mainly due to increases in output in Tete province.

Rice: nearly three-quarters of national output is produced in the provinces of the northern region, with Zambezia by far the most important with an output of 40-50 thousand tons annually. The remainder of output is supplied by the central region, and particularly Sofala province whose output appears to have more than doubled over the 2002-8 period.

Grain legumes: the northern region dominates production of different types of beans, totalling 140 to 160 thousand tons in the period 2006-2008. While there is evidence of increasing output of haricot-type beans (*feijão manteiga*) in Niassa and Zambezia and also of other beans (particularly pigeonpea – *feijão boer*) in Zambezia, output of cowpea (*nhemba*) was more or less unchanging, at 38 - 40 000 tons over the period 2002-8. Output of different types of beans totalled about 40 000 tons in the central region in 2008, with production of *feijão manteiga* growing in Tete and Manica provinces.

Sesame: With production more or less evenly divided between northern and central regions and totalling about 40 000 tons in 2008, output of this crop grew strongly from 2002 to 2008, particularly in Sofala and Nampula.

Maize: About 90 percent of national maize production is split evenly between northern and central regions, which each produce 500 – 600 thousand tons annually. Annual production seems to have changed little in the period 2002-8, with the possible exception of Tete province where production appears to have increased over this period.

The overall picture from the TIA data is that between 2002 and 2008 production of staple cereals, and the main food legumes (cowpea and groundnuts) fluctuated without any marked growth trend. Such growth as is evident occurred in output of sesame, and other grain legumes: *manteiga* (haricot beans); *feijão holoco* (mung bean); *feijão boer* (pigeon pea), and soybean. Comparable data for the years 2009 and 2010 is not available from the TIA programme, but data for marketed output in Nampula province supplied by IPEX in Nampula suggest that output has continued to expand, with marketed production of most crops in 2009 and 2010 exceeding the 2008 TIA production figures (Table 3.2) It is also possible that the TIA data have underestimated production or the IPEX data may have exaggerated marketed crops. It is also unclear whether IPEX data refers to processed or unprocessed

forms of certain crops (e.g. paddy or milled rice; shelled or unshelled groundnuts), so comparison requires caution. A further source of data on production levels is the recently concluded agricultural census. However, preliminary results published in May 2011 do not include any production data.

Table 3.2 Comparison of TIA production data for 2008 with marketed crops (IPEX) in 2009 and 2010 in Nampula province.

Crop	Production (1000 tons) in 2008	Marketed (1000 tons) in 2009	Marketed (1000 tons) In 2010
Maize	100	68	77
Sorghum	15	8	12
Rice	12	19.5	28
Beans	25	31	40
Groundnut	40	32.5	42.4
Cassava	897	95	130
Sunflower	6	4.1	3.8
Sesame	14	27.4	34

Underlying these statistical trends are a number of international and domestic market forces. In general terms, the high cost of transport in rural areas of Mozambique (as in other parts of sub-Saharan Africa) has made local agricultural production uncompetitive in international agricultural commodity markets. Conversely, the same factor has made it expensive to import agricultural goods beyond coastal urban centres (World Bank, 2009). The rise of international agricultural commodity prices since 2008 has both increased the competitiveness of Mozambican production, leading to increasing exports (notably of beans and sesame), and also opened opportunities for greater import-substitution (notably for maize and soybean).

Increased crop exports

Sesame: strong demand from both East Asian and Middle Eastern markets have translated into high prices (20-30 MT/kg) paid to producers over the past two years, with commercial traders based in Nampula active in establishing buying agencies in rural areas. Effectively all sesame production is destined for export, and an Agrifuturo (2010) report estimates a potential export market worth 2800 million MT (US\$84 million). This compares with an INE figure of US\$38 million for sesame exports in 2009 (Appendix Table 1.2), suggesting considerable scope for increasing production to meet international demand. Problems with pest damage in some areas (e.g. Monapo district) in 2009-10 have seen some groups of farmers switch to alternative crops (notably mung bean) in 2010-11. Moreover, the need to apply pesticides to control sesame flea beetle (see section 3, below) may diminish the scope for organic certification and premium prices for sesame produced in Mozambique. This has particular significance for obtaining higher prices for exports to Japan, currently one of the main export markets for sesame produced in Mozambique.

Beans: Published data on bean exports suggest they were worth about US\$6.5 million in 2009, but these do not discriminate between different types of beans. In practice, exports are destined to quite distinct geographical areas according to type of bean, with foreign-based trading companies seeking to purchase direct from producers during the marketing season. Mung bean (*feijão holoco*) is produced in lower-altitude areas, increasingly as an alternative to sesame, and almost entirely exported to South Asia. Producer prices have been in the region of 20 MT/kg, but foreign purchasers are reputed to have persuaded some producers to sell at prices considerably lower than this. Unlike mung bean, pigeon pea (*feijão boer*) and cowpea (*feijão nhemba*) have strong internal markets, selling in Nampula markets for 27MT/kg and 18MT/kg, respectively, in April 2011. For such crops, a considerable premium would be required to provide farmers with an incentive to meet higher quality standards required of export markets. This is likely to apply even more strongly in the case of *haricot*-type beans (*feijão manteiga* and variants termed *catarina* and *branco*), which are grown principally in cooler, higher-altitude areas of Niassa, Tete and Zambezia. One Portuguese company (Cister) has promoted an ‘outgrower’ scheme for these beans in the area of Alto Molocué (Zambezia), providing seed as part of a contract to purchase producers’ output for export to Portugal. The scheme has suffered from competition from the domestic market, however, and has yet to reach its export target of 1000 tons per year. For example, a notional scheme price of 17 MT/kg in 2010 had been raised to 20 MT/kg in the face of competition from traders from Maputo (*feijão manteiga* may sell for 50MT/kg in Maputo, with prices in Nampula around 30MT/kg).

Groundnut is widely identified as having a strong potential for export, but suffers from inadequate quality in smallholder production. To an extent this is the case for all smallholder crop output, but appears to present a greater constraint currently for groundnut than for crops such as sesame. Quality concerns arise both from lack of consistent grain size, colour etc due to varietal mixtures, and also due to aflatoxin contamination due to inadequate post-harvest storage conditions. Exports of groundnuts are also constrained by the wide range of groundnut size grades, which translate into strongly segmented markets, each with very specific product quality requirements. Finally, groundnut also has a strong internal market in Mozambique, with urban retail prices in Nampula above 50MT/kg. Agrifuturo (2010) has estimated the domestic groundnut market potential at 2575 million MT (about 130 000 tons, and about 30% higher than national production in 2008) and an additional export market at a little over half that figure.

Cotton has been a declining export crop in Mozambique over the past 4 years, as a consequence of low producer prices (and instances where processing companies failed to purchase all the crop), and the switch of small-scale producers to alternative cash crops (notably sesame and beans). Government action has tried to create a more competitive market for cotton, first by ending in 2009 the system of local concessions that allowed cotton ginning factories monopoly rights to supply inputs and purchase the crop, and then by raising producer prices from 5 MT/kg to 8MT/kg in 2010 and 15 MT/kg in 2011. Although such measures reflect high international prices for cotton, it is unclear as yet whether they will persuade small-scale producers to return to producing the crop.

Import substitution

Maize: According to FAO countrystat data (INE, 2011), maize imports cost US\$26 million in 2009. Excluding the further US\$4.1 million in maize flour imports (INE data), this translates into 858 million MT or 95 000 tons of maize purchased at 9MT/kg. This is much larger than the Agrifuturo (2010) estimate of 37 000 tons of potential import substitution for maize (it is not clear what basis is used for this lower figure), and would suggest scope for effectively doubling the national output of maize simply to satisfy domestic market demand. In practice, much of demand is in the south of the country, while the production potential is in the centre and north. High transport costs mean that it is often cheaper to import maize from South Africa to supply the market in southern Mozambique. As a consequence, maize supply in northern Mozambique may often be greater than local market demand, resulting in very low prices. There are also quality barriers to the purchase of locally-grown maize by industrial milling companies. In part, this is due to poor storage conditions, leading to pest and fungal damage. However an important part is due to the variety of maize grown by small-scale producers. Many, particularly in hotter, low altitude areas, have favoured ‘flint’-type maize varieties whose small

grains are harder and more resistant to insect damage. This has typically been ground manually, and more recently, by small-scale commercial grain mills installed in most villages during the past decade. Industrial millers, such as CIMPAM in Nampula (a subsidiary of Companhia Industrial de Matola) generally favour a softer, 'dent'-type, maize grain typical of the varieties grown in the higher-altitude areas of southern Africa (South Africa, Zimbabwe, Malawi). This is because 'dent' maize typically yields higher milling ratios (60-80%) of flour to bran compared to only 50% for flint maize. This is of less importance for small-scale mills in villages, where maize bran is sold to artisanal brewing enterprises. 'Dent' maize types are grown in higher-altitude areas of northern and central Mozambique, where 'local' maize seed is often derived from historical introductions of 'dent'-type varieties from neighbouring countries. There is thus immediate potential for some import-substitution in the sale of such maize to industrial millers. CIMPAM purchases about 9 000 tons per year of imported South African maize via CIM (its southern parent company), in addition to about 2500 – 3000 tons of local 'dent'-type maize purchased in the northern region of Mozambique. Currently CIMPAM pays between 7 and 9MT/kg for imported maize, so this establishes a ceiling on the price at which local maize producers will have to compete. In Nampula markets maize was priced at 7MT/kg and in Nacala 8MT/kg but in rural maize-producing areas fieldwork for this study indicated prices were much lower (2 – 5 MT/kg). It would appear that with adequate quality standards (mostly through storage improvement), local maize would be competitive with imports, at least in the north and central regions of Mozambique.

Soybean: A domestic market in soybean has arisen since government regulation of chicken imports in 2006, stipulating an 80-day limit on sale of imports from day of slaughter, and applying import taxes. As a consequence, the Mozambican poultry industry, which had been unable to compete with imports and had been using only 10 percent of its existing productive capacity in 2005, has increased production by about 20 percent per year over the past five years, and new investment has expanded productive capacity. As a consequence, growth in demand for soya for poultry feed, coupled with increasing international market prices for soya since 2007, has generated strong demand for locally-grown soybean. A director of Novos Horizontes poultry outgrower enterprise based at Rapale (Nampula) said that imported soya cake was currently costing US\$600 /ton (20MT/kg) in Nampula, compared to about 18MT/kg for Soya beans purchased in upper Zambezia. This represents a price of about 12-13 MT to the producer. Technoserve (2011) estimates 2010 demand for soyacake (80% by weight of soybean, the remaining 20% being extracted oil) by the poultry industry at 42 000 tons. Of this, 7000 tons is used by poultry producers in the Nampula area, 10 000 tons in the central region, and 25 000 tons in the south (mostly in Maputo). Estimates for current production and projections for 2014 (Table 3.3) indicate that soybean production in the north, centred mainly on upper Zambezia (Gurue, Lioma) and the western part of Nampula Province (Malema, Mutuali), is likely to meet the current needs of the poultry industry (2 large-scale producers (GETT, ProAlimentar), and one large outgrower scheme (Novos Horizontes) of 100x 1500-bird units) located around the town of Nampula, and similarly, that production in the central region, mostly in Tete (Angonia) and in Manica, will exceed local demand.

Table 3.3 Estimated demand of soya for poultry feed, and supply from soya bean production (1000 tons)
(Technoserve, 2011)

Year	2010			2014		
Region	North	Centre	South	North	Centre	South
Demand	7	10	25	14	20	46
Production	11	13*	0	22	14*	0
Surplus (deficit)	4	3	(25)	7	6	(46)

- Of which 6,000 tons in 2010 and 8,000 tons in 2014 estimated as produced on the Malawi frontier (Tete province)

By 2014, production in the central region is not expected to rise greatly from its current level, while soya production in the north is projected to double to 22 000 tons in order to cover the doubling in demand in the two regions to 34 000 tons. Although poultry production in the south is also expected to grow over the same period, there is no projected use of soya grown in the north and centre to supply poultry production in the south. There is thus a continuing deficit of some 46 000tons of soya cake that will be met by imports, since it is projected that any soya production in northern and central Mozambique that exceeds local demand will be exported to regional markets in Zimbabwe and Malawi. However, to the extent that production and/or transport costs for soya within Mozambique can be reduced, the national and regional market for soya can be considered very strong. The Agrifuturo (2010) estimate of a potential market of 500million MT (38 500 tons) appears very conservative.

Rice: Official statistics (INE, 2011) indicate that, of Mozambique’s imports of agricultural commodities, rice accounted for 40-45 percent (US\$120 – 150 million) of those attributable to crop products in 2008 and 2009. This suggests that increasing rice production has the potential to significantly reduce import costs. Although widely cultivated in valley bottoms and wetland sites throughout northern and central Mozambique, there appears to be little processing capacity at a local level, so that rice is sold generally as paddy rice at relatively low prices (Ipe data suggests 11 MT/kg in 2009-10). This appears a barrier to improving incentives to grow and market this crop.

3.2 MARKET ACCESS FOR SMALL-SCALE PRODUCERS

3.2.1 At a disadvantage?

The previous section indicates that high international prices for agricultural commodities have contributed to strengthening demand for a range of cereal and oilseed and grain legume crops in northern and central Mozambique, both in terms of raised demand in export markets and increased incentives for export-substitution. There is evidence, however, that small-scale producers, despite delivering the great majority of the agricultural output are at a disadvantage in agricultural markets. This section considers the structure of agricultural markets, drawing particularly on interviews with a number of agencies in Nampula, upper Zambezia and southern Niassa – in effect an area likely to be most directly influenced by the ‘Nacala Corridor’ developments. The section traces the interventions by state, NGO and private sector insofar as they have influenced the relationship between small-scale producers and agricultural markets.

3.2.2 Historical antecedents

It is important to recognise that the current state of agricultural markets in rural Mozambique reflects specific historical processes. In particular, the destruction of rural market networks in two successive decades, firstly due to the departure of Portuguese rural traders after independence in 1975 and secondly during the Renamo insurgency of the 1980s, means that the marketing system can only be considered to be still recovering in the first decade of the 21st century. Such efforts as were made to maintain agricultural productivity in wartime were dependent upon the state and its capacity to maintain security. In practice the most successful of efforts to organise and promote small-scale production were in peri-urban areas, where cooperative groups cultivating lower-lying land and streambanks were an important source of fresh vegetables for the urban areas. In the two decades since the ceasefire, military demobilization and electoral reform process of 1992-4, efforts to establish market access for small-scale producers have been dominated by two distinct approaches. One has used commercial companies to establish contract farming with small-scale producers. The other has emphasised organisations of small-scale farmers as a means of improving their bargaining power in agricultural markets (cf. Ch. 2.1.2).

3.2.3 Contract Farming approaches

Although African smallholder production dominated colonial agricultural output in Mozambique, in the years immediately after independence, agricultural policy was dominated by efforts to maintain production on mechanised farms abandoned by the 90 percent of Portuguese settlers (total 200 000 in 1970) who left Mozambique in 1976. Much of the abandoned area was run as state farms managed by technical teams provided under a number of bilateral trade deals, including ones with Italy, China, East Germany, Bulgaria, and Romania. Pesticide application was contracted out to technical teams from the major commercial manufacturers of the time (Shell, Bayer, Hoechst, Ciba-Geigy). Low productivity and financial losses on mechanised state farms had by 1982 led to a change of policy and an emphasis on reviving rural markets as means of recuperating production by small-scale producers. A scaled-down mechanised sector was seen as providing centres of technical and marketing support for small-scale producers. However, this policy was rapidly overtaken by growing insecurity and depopulation of many rural areas. By 1992, the state farms had largely been dismantled and the land leased to commercial farming enterprises notably LOMACO, a joint venture formed by Lonrho plc and the Mozambican government. LOMACO concessions in Cabo Delgado in the 1990s included direct cultivation of 13,000 ha in Cabo Delgado and exclusive control of cotton marketing in an 'area of influence' of 1.45 million ha in the province (Myers and West, 1993; Myers, 1994). This model of allocating a commercial company exclusive rights both to market small-scale producers' output and to supply inputs (mainly seed and pesticides) within a defined geographical area remained a feature of cotton production in Mozambique until it was abandoned in 2009.

Although exclusive market control within a geographical 'area of influence' no longer features in current formulations of arrangements between large-scale enterprise and small-scale producers, contracts involving input supply (usually on credit) to smallholders in return for sale of harvest to their 'agribusiness partners' (ABP) are widely advocated as a means of value chain development, for example by the Agrifuturo project funded by USAID, as well as through the Beira Corridor (BACG) initiative.. Such programmes are also being developed by the Matanuska/Corredor-Agri enterprise based in Monapo district, with 450ha farmed by about 900 small-scale outgrowers producing maize, sesame, and mung bean under contract in 2011. This area forms part of the 3000ha Matanuska banana plantation of which 1200 ha have so far been planted. As this area of the plantation becomes fully planted with banana, continuation of the outgrower programme will necessarily include small-scale producers' own land holdings.

It is too early to judge how current proposals for outgrower schemes will perform in practice. On the one hand, production contracts with small-scale producers have been used by a variety of commercial enterprises as a system of seed production, with some degree of success. On the other hand, there are aspects of current developments that suggest the need to locate contract farming within a broader rural development strategy. One such aspect is the intention of using ABP as a means of supporting a

relatively small number of relatively larger-scale (i.e. >10ha) 'emerging' farmers with a view to developing a medium-scale commercial farming sector. A second aspect is the balance between the land use and farming by ABP themselves and that of neighbouring small-scale 'outgrowers' and the implications this may have for competition for land.

The latter issue is graphically illustrated in the case of Lioma, in the heart of the soya-growing area of Zambezia. Land concessions to a number of foreign-owned companies have been justified as bringing back into cultivation land cleared by the colonial administration for Portuguese settlement and occupied from 1979 as a state farm, abandoned in 1988. In practice, foreign companies' use of the land has involved eviction of some 244 soya-bean producers farming about 500ha (de Wit et al., 2010). Many of those evicted had been cultivating their land since the mid-1990s, and thus have the right under Mozambican law to apply for government recognition of individual tenure rights on the basis of 'good faith occupation'. These claims, and an associated land titling campaign, have been supported by CLUSA as part of their programme to support soya production by small-scale producers in Zambezia. Moreover, the ensuing land conflict has promoted a degree of political cohesion among farmer's organisations. This, coupled with the failure of one ABP (HoyoHoyo, owned by Quifel Energy Mozambique) to cultivate more than 350 of its planned 3000ha (of a concession area totalling 23 000ha), creating only 110 jobs, has resulted in a *despacho* on 6 May 2011 from the Provincial government requiring the company to resettle those displaced by October or otherwise lose its right to use the land (DUAT). Precisely how the resettlement is to be done, whether within the existing cleared and cultivated area or whether new (i.e. forested) land of appropriate quality is available for clearing is unclear. The same case also demonstrates a degree of confusion over the boundaries of concessions, several of which have been made in the Lioma area to different foreign companies (Rei do Agro, Quifel/HoyoHoyo, Miranda), and their (lack of) compliance with Mozambican land law, discussed in detail by de Wit et al. (2010).

3.2.4 Commercial Traders

While the contract farming model using ABP is argued to promote the use of more productive technology through input supply and an assured market, it is important to recognise that agricultural markets are also changing as a result of the activities of commercial trading companies, of which a half-dozen, including Gani, Export Marketing, OLAM, and Corredor Agri dominate the northern region. All, in their different ways, seek to establish competitive access to agricultural producers. Some, like Gani, have established a network of rural shops/market depots (*cantinas*). Others have attempted to establish contracts to supply inputs and purchase the crop, such as Cister in Alto Molocué and Corredor Agri in Monapo.

Questions invariably arise as to the terms of trade in such contract arrangements. Many farmers state that the main reason for the decline in cotton cultivation was the low prices and late payments made by the companies running the outgrower schemes. It seems that this is less likely for crops other than cotton because, rather than a single local cotton processing factory, there is likely to be more than one possible end user of the crop. It was also commonly stated that the number of traders operating in the agricultural markets in northern Mozambique had increased in recent years (one trader claimed a fivefold increase). This should imply a more competitive market and higher producer prices. Nonetheless, producers' efforts to exploit market opportunities do risk depressing market prices. This is evident in the 2011 marketing season in Nampula, where large numbers of farmers had shifted their cash crop production from sesame to mung bean due to pest problems in sesame the previous year. Harvest prospects for mung bean were stated to be good, but the view of traders in Nampula was that, while a good harvest would stimulate interest among foreign buyers (notably those from India, in the case of mung bean), the lack of forward contracts specifying a minimum purchase price meant that producers were at risk of selling their crop at very low prices (as one trader in Nampula said with a smile: "*eles não se responsabilisarem, agora ariscarão*" – "they didn't make [contractual] arrangements, now they have to run the risk").

The market bulletin produced by the government's Provincial Agriculture Service also provides instances of large deliveries of agricultural commodities in Nampula causing a drop in local prices. Members of producer associations in Netia (Nampula), Cuamba (Niassa) and Ruace (Zambezia) all referred to problems with low prices offered by both Mozambican and foreign trading companies, and this is clearly a major driving force behind the current interest in establishing producer cooperatives. Members of the ALIMI cooperative in Niassa (see 2.6, below) cited the instance of being advanced one million MT of credit from a trader in Nampula in 2009 on condition that the cooperative's margin (its selling price less the price paid to producers) was no more than 1.4MT per kg traded (ALIMI reckons its minimum margin to cover costs is 3.3 MT/kg). This was given as an example of the predatory practices that commercial traders are able to impose due to their access to capital, and a motivating factor in the establishment of the cooperative.

The broader need to improve price awareness among producers is also central to a USAID-funded pilot project (ISOCO) starting in 2011 to explore the dissemination of information on prices and potential buyers to producer organisations via the cell phone network. There is also evidence that government policy also sees rural market development as a priority, with statements that the 7 million MT funding for each district should be used to stimulate agricultural marketing. A major four-year initiative called PROMER, funded by IFAD, is also intended to develop agricultural markets, although the definition of specific actions has been the subject of study during the first year. Contracts signed in April 2011 with Mozambican NGOs SNV and Olipa are for literacy programmes linked to production and marketing in four pilot districts (Ribaué, Malema, Alto Molocué and Gurué).

3.2.5 Farmer organisations

The promotion of village-level associations was a prominent feature of NGO-led rural extension programmes as postwar reconstruction got underway in the 1990s. Thus, farmers in Ruace (Zambezia) trace the initial formation of producer associations to the World Vision OVATA programme promoting pigeon pea cultivation. In Nampula, community associations arose in a context of organisation of input supply for cotton production. However, the emphasis of producer associations has tended to be on non-profit technical extension and input supply, dictated in part by legislation in force until 2010. Much of the CLUSA support to producer organisations since 1996 in Mozambique has followed this pattern, providing inputs and advice on the adoption of less familiar crops to promote diversification in the production of cash crops (promoting soya in Zambezia, sesame in Nampula). It needs to be recognised that, despite weaknesses (see section 3, below), and doubtless aided by problems in the organisation of the traditional cotton cash crop, this effort has made substantial progress in the development of cash crop markets in northern Mozambique.

The continuing need for producers to have greater capacity to negotiate prices with commercial traders provided the rationale for CLUSA's work to establish 'producer-owned trading companies' (POTC), which, in Mozambique, was constituted by IKURU SARL. For crop marketing purposes, groups of up to ten associations were aggregated into *foros* ('forums') at which storage facilities would be constructed. The internal structure, management and organisational development of IKURU are discussed elsewhere in this report. Here, the purpose is to consider the impact of the company on agricultural markets. Data on IKURU operations provided by the GDA final report (GDA, 2010) shows IKURU purchased a total of about 1300 tons of agricultural commodities in each of the 2008 and 2009 marketing seasons. Data provided by IPEX shows marketed amounts of at least 30 000 tons *each* for beans, groundnut and sesame in 2009 and 2010 in Nampula province. One trader in Nampula estimated about 20 000 tons of mung bean (*feijão holoco*) alone would be marketed in Nampula in 2011. Even allowing for the recent establishment of IKURU, these figures highlight the different order of magnitude between the scale of the agricultural commodity market and the scale of IKURU's operations. Furthermore, the decision in 2010 to restrict IKURU's trading activity to seed multiplication and Fairtrade/organic commodities (totalling 879 tons and 744 tons of farm production in 2008 and 2009 respectively) in order to increase profit margins may be seen as reducing IKURU's relevance to producers' central problem of how to achieve higher prices for the bulk of their marketed output. This is not to deny that focusing on more profitable trading is a financial necessity from

IKURU's corporate viewpoint, nor that IKURU's capacity to trade larger volumes has been restricted by its inability to raise working capital from bank loans, but explains why some leaders of *foros* consider that IKURU has not behaved in ways that respond to farmers' needs. The current emphasis in IKURU on pursuing higher-margin fair-trade and organic export markets in Europe will only be of significance to producers if traded volumes can be scaled up, by at least tenfold in the short term (moving it within range of a 10% share of the market of one or more of the main export crops at the level of Nampula province).

3.2.6 "Modern cooperatives"

With the enactment of new legislation allowing cooperatives greater scope for commercial activity and partnership with private enterprises (see Ch. 2.1.1), there is an evident expectation that associations and *foros* will provide the basis of a cooperative structure capable of intervening in agricultural markets on a significant scale. The capacity of *foros* to make this transition is likely to vary greatly, but there is clear evidence in the *foros* visited during this study (Netia, Nacololo, and Acissa Ruace) that they include many dynamic individuals (including 'emerging' farmers') who identify opportunities of advancing their individual farming enterprises as lying within a supportive cooperative organisation capable of generating and investing capital in infrastructure and equipment (especially for mechanisation of cultivation and crop processing). The Acissa Ruace Forum, for example, had invested their own capital (generated from margins from crop marketing in past years) in a down-payment for a tractor, with the remainder of the cost to be paid in instalments over four years from the proceeds of a collectively-managed field of soybean to be planted for the purpose. However, despite the evidence of such initiatives, the only producers' organisation so far to have systematically implemented a crop marketing system at a significant scale is ALIMI, based in Cuamba.

The ALIMI model

ALIMI is a producer cooperative operating in southern Niassa, centred on Cuamba. Its goals are to improve producers' bargaining power in agricultural markets. ALIMI was established under the new Cooperative Law and began trading in the 2009 marketing season, with sales of 2.75 million MT. Sales rose 15% to 3.16 million MT in the 2010 season, but margins on sales (gross profit) increased fourfold to 949 208MT. In the 2011 season ALIMI's sales target was 4300 tons (that is, about three times Ikuru's annual total in 2008 and 2009), of which 2550 tons of maize to be delivered to the CIMPAM milling company in Nampula. This latter component was not secure, however, as no agreement had been reached on price. The remaining 1750 tons, to be made up of sesame, soya, and grain legumes, nonetheless is ten times the amount ALIMI traded in 2010.

ALIMI members numbered about 500 in May 2011, with each member paying a 200MT one-off fee that constitutes the cooperative's capital stock and Cooperative Social Fund. The cooperative is based on local 'unions' at sub-district level, termed '*localidades*', each with a purchasing point (*posto de compra*) and storage depot run by a TCP (*técnico de comercialização e produção*) paid by commission on the amount purchased. The marketing activities in each district are managed by a district agent (*agent distrital*), also paid on commission. ALIMI currently operates in 6 districts and the members of local unions elect delegates from their district to the Cooperative General Assembly on the basis of one vote per 500kg of crop marketed, up to a maximum of 7 votes per member. Voting rights are established by a census of membership and amounts of product marketed in November, and the General Assembly is held on 31 December to report on the year's results and to agree plans for the following year. In 2010 there were 41 delegates at the General Assembly, from which 11 were elected as members of the cooperative management committees (*orgãos sociais*), using the convention that each district will contribute at least one committee member. The principal *orgãos sociais* are the *concelho de direcção* (5 members) chaired by the cooperative president and the *conselho fiscal* (a three-member finance committee). ALIMI is currently supported by CLUSA in the form of three paid staff members (one of whom an accountant) based at the CLUSA office in Cuamba.

The membership of ALIMI local unions overlaps with the rural *'associações'* which pre-date them. While the membership of the 416 *associações* in the districts in which ALIMI operates is estimated at 10425, ALIMI membership numbers 500. ALIMI's crop purchasing depots buy from all local producers but ALIMI members receive a 0.5MT/kg premium over the price paid to non-members. The cooperative also pays a 0.5 MT/kg marketing commission divided 75% to the marketing team (of which 85% to TCP of the depot (*posto de compra*) and 15% to the district agent) and 25% the district union. Thus, on a ton of product marketed, the commission amounts to 500MT, shared 330 MT to the TCP, 45MT to the district agent, and 125MT to the district union. In 2010, CLUSA paid a subsidy of 600MT/month to each ALIMI TCP, and 3000MT/month to each district agent, for the three months of the marketing season. In 2011 it was agreed this would no longer be paid, but a cash advance to TCPs against commission earnings was under discussion to ensure they had some income during the early part of the marketing system and to ward off the possibility that they would use for their own subsistence money held at depots for crop purchases.

ALIMI currently has 52 *postos de compra*. In the 2010 marketing campaign, the cooperative used its social (membership) fund of about 30 000MT to finance its marketing operations. In 2011, this fund stands at about 100 000MT, but the cooperative was looking to raise a bank loan to fund the purchase of maize for resale to CIMPAM (this had yet to be agreed at the time of fieldwork). In future years, the cooperative will look to raise loans secured against a new warehouse being built alongside the railway in Cuamba. The difficulties experienced by IKURU in depending on bank credit to fund its marketing operations need to be understood in the light of bank lending policy in Mozambique that discriminates against agriculture and against small-scale agriculture in particular (see Ch. 6 in this report). It seems unlikely that cooperatives such as ALIMI will be treated any differently and therefore important that the cooperative's financial policy should be to generate working capital from within the organisation rather than from bank credit.

3.2.7 Farmers organisations and rural social transformation

Much of the discourse underlying donor-funded projects to support small-scale farming implies a need to modernise rural society, shifting rural producers' perspectives from those of 'subsistence' to those of the 'market'. In the same vein there is a tendency to regard 'emerging farmers' (i.e. those cultivating more land) as a separate category from other small-scale producers. One risk is that this may underplay social relationships that influence the capacity of individual producers to exploit opportunities to 'make the shift from subsistence to market-oriented production'. Further, lack of insight into such relationships may give rise to unrealistic expectations of what 'farmers' organisations' can achieve. Two clear instances of such risks relate to gender and wealth differences within rural communities.

In the case of gender, the ALIMI cooperative offers a striking example of how a new organisation reflects existing social norms. Whereas women account for 52 percent of the membership of rural associations in the 6 districts in which ALIMI operates, they make up only 33 percent of the ALIMI membership. This was explained by cooperative committee members in terms of women having less access to cash income and hence reduced ability to pay the 200MT subscription to ALIMI. This, in turn, they attributed to gendered attitudes to cash income from farm labour (*ganho ganho*), with women being prevented by their husbands from undertaking work on the fields of other households. Discrimination against cash income for women was also evident in the very low number of women (6%) among the TCPs in ALIMI and the complete absence of women in the role of district-level *agents*. It is equally striking that quite different gender relations appear to prevail in neighbouring Lioma, where women's role as commercial producers in their own right (i.e. not simply as part of the household workforce) is evident in registers of seed multiplication contracts, and where de Wit et al. (2010) report that a CLUSA campaign of land titling had resulted in the issue of 103 'provisional' land titles covering 1062ha, of which 409 ha were registered in the names of individual women.

Discussions with officials of *foros* in both Nampula and Zambezia made clear that 'associations' typically include both a small minority of 'emerging' farmers cultivating more than 10 ha, and a

majority cultivating no more than 5 or 6 ha each. In the *foro* in Netia (Nampula), for example, out of 300 members 50 cultivated more than 10 ha (of which 6 cultivated more than 20 ha) while the rest cultivated 5 ha or less. It is clear that existing donor-funded policy is to segregate out the ‘emerging’ larger-scale producers to encourage their more rapid capitalisation and expansion as commercial producers. This may also be consistent with the thinking of many in the Mozambican government. What is less clear is whether this policy is understood and accepted by members of the *foros*, and the implications this has for the future social relations within farmers organisations. More broadly, it seems necessary to understand that small-scale agriculture is embedded within a dynamic social context in which market forces interact not only with individual household livelihood strategies but also with more collective projects for political empowerment. It is possible that the latter may assume more prominence in future, prompted, for example, by evictions to make way for large commercial farms (e.g. in Lioma and Monapo) or for urban expansion (evictions of agricultural cooperatives from peri-urban areas of Nampula). It is important to note that, as with gender dimensions observed above, the point here is not to impose a normative view of what type of relations should prevail (this being the remit of government policy), but to understand the influence on project outcomes of the interaction between project intervention and existing social relations.

3.3 PRODUCTION CONSTRAINTS AND INPUT USE

3.3.1 Soil and water conservation

Section 1 of this report stated that, despite the relatively high annual average rainfall of most of northern Mozambique, rainfall uncertainty is the largest single constraint and source of risk in crop production. This is supported by TIA data for 2002-8 on reasons given by farmers for crop losses, which are dominated by ‘lack of rain’. This indicates that agricultural water management is a key area for investment. Existing production systems make intensive use of water accumulation in valley bottoms to cultivate rice in the rainy season and vegetables in the dry season, and strategies of intensification of agriculture would need to assess the feasibility of increasing water storage to enable supplementary irrigation of a larger part of the landscape, either to enable more reliable crop germination or to protect critical stages of crop growth from mid-season droughts. Water storage in on-farm dams has long formed part of large-scale commercial agriculture in southern Africa and, indeed, in northern and central Mozambique, but its development for small-scale producers raises not only issues of finance and management for infrastructure and equipment but also institutional questions about how water allocation among large numbers of producers is to be governed. Such problems need not be insurmountable, and it is worth noting that despite these regions being regarded as a zone of rainfed agriculture, significant water management takes place in small-scale agriculture. TIA data records that in 2002-8 about 15% of small and medium-scale producers in Tete province used irrigation, with smaller but significant proportions in Manica (12%), Sofala (11%) and Niassa (8%). In Nampula, Cabo Delgado and Zambezia the proportion was less than 5%. It is clear that investment in new water management infrastructure would need to be informed by how such existing irrigation functions on small to medium-scale farms. While some such studies have been undertaken recently in Mozambique (van der Zaag et al, 2010), much more needs to be done to understand how irrigation fits into small- and medium-scale farming systems. In the meantime, the short-term focus of efforts to improve water availability to crops is likely to focus on ‘in-field’ improvements of soil management aimed at increasing the share of rainfall that reaches the crop root zone in the soil.

Agronomic approaches to achieve this have become grouped under the general heading of ‘conservation agriculture’ (CA). The three main principles of CA are: to minimise mechanical soil disturbance; to maintain permanent organic soil cover; and to diversify crop rotations. Yet, although CA is widely used in Latin America and in Asia, how these principles might be productively applied in specific African contexts is the subject of considerable controversy and continuing evaluation (Giller et al, 2011). In part, this seems due to agronomists’ inadequate understanding of the constraints confronting small-scale producers in many African contexts, and the extent to which such contexts differ. A Conservation Agriculture project in Zambia, for example, records that some 30 to

40 percent of households surveyed had a team of trained oxen for cultivation, with 13.6 percent of households having acquired CA tillage implements ('ripper'). About a third of surveyed households had acquired hand-hoes designed for CA methods. Nonetheless, progress in adoption of CA appears slow. Although 18 percent of households used CA 'ripping' on some part of their land, the average area planted this way was only 0.26 ha, compared to an average of 1.8 ha ploughed conventionally. The Zambian experience indicates farmers who use CA are preparing land about two months earlier than those cultivating conventionally, suggesting that CA allows planting with the first rain. One problem noted in the Zambian CA project (Nyanga and Johnsen, 2010) is that where extension efforts for CA methods are linked to subsidized access to inputs, such as fertilizer, it is hard to assess whether CA use would be sustained after the end of project support to input subsidies.

The Mozambican context contrasts strongly with that of Zambia, not least because there is no use of draught oxen in the four northern provinces (TIA data 2002-8). In the central region, the proportion of households with draught oxen varies from 30% in Tete, to 12.5% in Manica and 2.5% in Sofala. To be of relevance to small-scale producers in the northern and central regions, therefore, CA must be envisaged primarily in the context of hand-hoe cultivation. An evaluation of two NGO projects to introduce CA in hand-hoe systems in Angonia (Tete) has been undertaken by Grabowski (2011) three years after the start of the projects. The two projects advocated different applications of CA principles. One promoted the digging of small basins all over the cultivated area. Compost is applied into the basins and the crop seeds then sown into the compost. The other project advocated covering the soil with mulch and the use of herbicide to control weed, together with fertilizer application. The evaluation observes that "many farmers found CA was less work, more drought-tolerant and better for long-term soil fertility" but that "there was little sign of CA adoption beyond the plots where NGOs have provided inputs".

The analysis of this paradox highlights a number of difficulties with the adoption of CA that have been identified in other parts of sub-Saharan Africa. In particular, CA adoption may be limited by shortages of capital and labour among small-scale producers. Systems that require herbicides (to control weeds) and fertilizer (to counteract the effect of mulch reducing availability of nitrogen for the crop – considered a transition problem in the first few years that mulching systems are used) require cash to purchase the inputs. In practice in Mozambique herbicides may not be available, let alone affordable. Moreover herbicides are not well-adapted to intercropping, as they are generally highly specific and therefore likely to damage one or other of the component intercrops. CA thus is often associated with a shift from intercropping to crop rotation. However, Zambian experience shows that this remains problematic as existing advice on accurate herbicide use (dilutions to use, timing, health precautions etc) fall short of what farmers require. The Angonia study suggests, however, that producers' use of agrochemical inputs in CA is above all constrained by the low prices generally available for maize: it does not offer a high enough return for the investment required.

A similar conclusion emerges in relation to the basin and compost CA approach, except that the constraint is not cash to pay for inputs but labour required to dig the soil basins and to make the compost. Of particular significance is that composting undertaken on a small-scale is widely accepted, since it can be undertaken during short periods in between other tasks, when opportunity costs of labour are low. To the extent that composting is scaled up to apply CA on larger areas, the labour required will displace other income-earning activity (notably dry-season irrigated crops in the Angonia case) and opportunity costs rise. As a consequence of this non-linear relationship between labour cost and scale in composting, CA based on composting is restricted to small areas. However, a further important observation in the Angonia study is that the CA methods did not provide immediate advantages in terms of more timely planting. This is because, unlike the Zambian case in which conventional ploughing had to await softening of the soil by the first rains (and hence delays to crop sowing), the conventional hand-hoe system in Angonia grows crops on ridges and these can be cultivated by hand during the dry season much more easily than flat ground. Thus, the conventional ridged system enables soil preparation months in advance of the arrival of the rain.

Grabowski's analysis of CA adoption under hand-hoe cultivation in Angonia suggests that labour input (hours per hectare) in basin-compost CA systems may be as much as double that required for conventional intercrops grown on ridges, although labour for heavy cultivation tasks, such as ridge-making and digging basins, appeared to be about half that required by the conventional system. Where CA was based on herbicide, mulch and fertilizer, labour requirement per hectare was about 50% higher than for conventional ridged cultivation. Yields of maize were higher (1.66 and 1.45T/ha in fertilizer + herbicide and basin + compost systems respectively) than in the conventional ridged intercrop (0.7T/ha). Consequently, when compared in terms of labour productivity (hours per ton of maize) the CA and conventional systems were practically the same. However, whereas the conventional ridged system had been used on an average of 0.7ha per farm, the CA systems had been applied on much smaller areas (0.18ha for fertilizer + herbicide and 0.08ha for basin + compost). Grabowski's data show considerable variability between individual producers' plots, but allow an estimate that whereas the conventional system required 700 hours of work to produce 500kg of maize, the fertilizer + herbicide system had required 276 hours of work (plus cost of inputs) to produce 300kg of maize and the basin + compost system had used 140 hours of work to produce 116kg. These figures raise a large number of questions about cultivators' resource-allocation decisions that cannot be reliably answered outside specific farming (and agricultural market) contexts, as indicated above by non-linear increases in opportunity costs as scale of CA rises.

This brief account of CA experience in Angonia suggests that using CA as an approach to improving soil and water conservation can only be contemplated on the basis of serious investment in adaptive research to understand the specific constraints and priorities in a particular agricultural context. This will involve not just identifying the amount and cost of labour required for particular farm operations, but also who is providing labour for particular tasks, as reducing labour in cultivation and increasing labour for weeding may involve highly gendered trade-offs (Giller et al, 2011), for example. As a consequence, it is not possible to identify a simple adoption of CA as a short-term goal for small-scale farmers using hand-hoes. It seems that such a prospect is more likely for 'emerging farmers' for whom mechanised (tractor) cultivation is already a priority, and, in some cases (Acissa Ruace, in Lioma), a reality as a result of farmers' own investment. For such larger-scale mechanised production, the existing technology for cultivation (substituting 'rippers' for disc ploughs) and weed control (herbicide applied to crops grown in rotation) would be relatively easily adapted to a system growing, for example, maize in rotation with soya. For smaller-scale producers, dependent on hand-hoe cultivation, this adaptation is likely to be more complex, and an understanding of labour productivity and opportunity costs (including off-farm opportunities) must form the basis of any analysis. A question that producer cooperatives will need to address sooner or later is to what extent smaller-scale producers can also benefit from the growth of availability of mechanised cultivation among more medium-scale producers.

A further point emerging from the Angonia experience is that producers will only invest cash in crops that promise a return. Focus thus must be on short-term impacts, above all on crop production (e.g. through more stable yields due to improved soil moisture management) and labour productivity. Longer-term effects of CA, such as reduced erosion and conservation of soil fertility (and, even less, contributions to carbon sequestration and the wider management of atmospheric carbon – also a benefit claimed for CA), are unlikely to weigh heavily in land users' cultivation decisions, although they may well feature in more political discussions where farmers demand support from government or foreign funders.

3.3.2 Seed Quality

A key input to raise productivity, seed supply in Mozambique is heavily dependent on imports, which an Agrifuturo (2010) report estimates varied between 4,000 tons in 2007 and 14,000 tons in 2008, when 63% originated in North America, and 29% from the SADC region. Along with other southern African countries, Mozambique has been seeking to increase the amount of seed produced within its own borders. However, there has been a history of failure to establish a viable seed production company. Despite considerable foreign investment, the state company Semoc was a commercial

failure and left substantial equipment and infrastructure abandoned. IKURU is the only Mozambican-owned company currently licensed to produce and sell seed, the remainder of seed supplies generally being imported by foreign-owned commercial companies, such as Seed Corp and Panar. This section considers the current status of seed supply for the main crops grown in northern Mozambique and, drawing on the experience of IKURU, the prospects for seed supply by a locally-owned seed production company.

Improvement of seed quality has two main elements: improvement of genetic characteristics through varietal selection; and improvement of seed vigour and germination percentage through management of the seed multiplication, harvest and post harvest storage.

Genetic improvement

With few exceptions, crop genetic improvement in Mozambique has since the colonial period relied on introductions of varieties developed in breeding programmes elsewhere. This was accentuated during the decade of warfare and insecurity from the mid 1980s to the mid 1990s when large-scale abandonment of the countryside made conservation of local seed stocks very difficult and seed supply became dependent upon decisions by a large number of foreign relief agencies. Establishment of a national capacity for crop improvement is clearly a long-term project, although partnerships between the national agricultural research agency (IIAM) and international research centres, such as IITA, mean that Mozambique's crop improvement researchers draw upon global expertise and collections of crop germplasm. This has yielded significant success. For example, the IITA/IIAM collaborative programme identified cassava varieties resistant to root rot (*podridão radicular*) which had become a threat to food security in north-eastern areas of Mozambique. Five varieties (three 'sweet' and two 'bitter') have subsequently been released and planting material distributed through a multiplication programme run by the government's Provincial and District-level agricultural directorates.

Among other crops, the IIAM priority has been to identify varieties which meet the needs of rural households to meet their own consumption needs. Thus, the two main IIAM-released maize varieties, Matuba (bred for hotter lowland conditions) and Tsangano (bred for cooler uplands), are both 'flint'-type, considered more resilient to storage by rural households. 'Dent'-type maize favoured by industrial millers is therefore grown using farmers' own seed (generally originating from past introductions from South Africa, Malawi, Zimbabwe, or the United States) or from imported seed sold by commercial seed companies. For groundnut, the standard variety advocated for northern Mozambique is 'nametil', rosette virus-resistant and generally regarded as well-adapted. Many contacted for this study claim the seed stock has degenerated, giving rise to variable grain characteristics, but IIAM has 10ha of basic seed multiplication in Nametil, Nampula. Inadequate seed quality is therefore perhaps better understood as a lack of seed multiplication capacity (see below). IIAM's priority is explicitly to provide basic seed of varieties to satisfy the domestic Mozambican market, not export markets. It seems that the small grain size of nametil, while suitable for some export markets, does not meet the needs of all (cf CLUSA, 2010). This raises questions about whether this variety will be of primary interest in markets offering higher prices – and, as a consequence, of interest to producers most willing and/or able to pay for good quality seed.

The other major staple crop, rice, is largely grown using local seed, generally referred to by geographical names. It seems that while IIAM has undertaken some comparative work, no rice varieties have yet been released, primarily because of concerns that 'improved' IIAM varieties will not be able to compete with local varieties in terms of cooking quality. There is, nonetheless, some optimism that 'nene', a 'nerica' (New Rice for Africa breeding programme) variety originating from West Africa, has proved acceptable in trials on small-scale producers' fields in Angoche. As a result, multiplication and sale of seed may be of commercial interest.

The principal cash crops, sesame, soya and various types of beans have been of less central interest for IIAM, although IITA has had a long collaboration on cowpea improvement dating back to the 1980s, producing IT18 as the main variety multiplied for smallholders. More recently, an IITA's

programme of soya improvement has identified a number of “TGx” varieties of Chinese origin that are better adapted for lower altitude, hotter, growing conditions, offering the possibility of extending the area capable of growing soya beyond the upland zones of western Nampula, upper Zambezia and northern Tete, to include eastern Nampula and Cabo Delgado. IIAM has applied for Ministry of Agriculture permission to release 5 such varieties and is producing pre-basic seed on its research fields in Ruace, Lioma. In contrast, most soya grown during the past four years has used seed of Zimbabwean varieties (‘Serenade’, ‘Safari’, ‘Saga’, ‘Storm’ etc) either purchased directly from Seed Corp, or multiplied from basic seed (supplied by Seed Corp) by smallholders under contract to IKURU, who sell it to producers. In 2011 IKURU also contracted smallholders to multiply seed of nine varieties of “TGx” soya.

For sesame, no programme of genetic improvement is being undertaken by IIAM, but collaboration with Naliendele Agricultural Research Institute, Mtwara (Tanzania) has resulted in the release in Mozambique of the Tanzanian variety ‘Linde’. This, together with another introduced variety ‘Nicaragua’ forms the basis of current cash crop production and seed multiplication by IKURU. Neither variety is resistant to sesame flea beetle pest (SFB) which caused major crop losses in some areas in recent years, causing many farmers in Monapo to switch from sesame to mung bean as their main cash crop. The pest damage increases when land is repeatedly used for sesame, but rotation by individual producers can only partly avoid the problem since the insects can fly from infected areas to attack new crops. Joint Tanzanian-Mozambique research (SADC, 2011) identified seed treatment with Imidacloprid (7-10gm a.i./kg seed) as an appropriate protection, followed by a pyrethroid insecticide spray soon after seedling emergence in badly affected areas.

Seed Production

IKURU is the only Mozambican company licensed to produce and sell seed and is recognised and supported as an official seed supplier by the Bill and Melinda Gates Foundation (BMGF), in addition to Norges Vel/FK. Seed purchase and sales by IKURU in the years 2008- 2010 are recorded by CLUSA (2010) and summarised in table 3.4. Seed production and sale is considered to be one of IKURU’s higher margin activities and hence the focus of a future, restructured, company. Currently, IKURU buys basic seed, usually from IIAM, and distributes it to small-scale producers for multiplication under contract, purchasing the harvest at a premium above grain price, and reselling it to producers as certified seed after cleaning, grading, and (in the case of sesame) treatment. Seed certification is provided by technical staff at the DPA who are charged with inspecting all seed multiplication fields. In Nampula, one *técnico medio* was responsible for inspecting about 2500 ha of seed multiplication in 2011, a level of resources that many of those interviewed regarded as inadequate to provide confidence in the certification regime.

In the 2010-2011 season IKURU contracted some 200 small-scale producers growing crops for seed on a total of about 700 ha. Crops for which seed multiplication was contracted included groundnut, sesame, maize, beans and soya. IKURU has three technical staff and one administrator who supervise the seed production operations. Field visits to the area of soya seed multiplication in Zambezia, coupled with interviews with technical staff in Nampula and Gurué, provided further insight into IKURU’s seed production.

Table 3.4 Seed Purchase and Sale (tons) by IKURU 2008-10

year	2008		2009		2010	
	purchase	sale	purchase	sale	purchase	sale
sesame (non-treated)	23	19	39		28	13
sesame (treated)		18		34		6.2
maize	16	9.2	14	7.2	14	18
groundnut	57	67	75	47	22	58
cowpea	17	23	20	23	13	39
pigeon pea					15	18
soybean		109	68	258	47	225
total	350	246	474	370	201	378

The overall impression gained is that seed production by IKURU suffers from a number of technical shortcomings, which may be briefly specified:

- There appears to be an inability to process seed using existing equipment. This is due to a number of reasons. Equipment may have the wrong capacity for the size of processing task required, as in the case of cleaning and grading equipment at its warehouse in Nampula, which does not have enough capacity to process the groundnut seed which IKURU has purchased under contract from producers. Efforts to use mobile shelling equipment have proved unsuccessful as they resulted in broken seed. IKURU now plans further investment to construct a plant in Nametil capable of shelling 8t of groundnut per day. Other equipment is not used to capacity because of failure to invest in adequate energy supply, as in the case of the equipment in Nacololo capable of processing 4t/day of sesame seed. A transformer to connect the equipment to the electricity grid will cost US\$20 000. In the event of the power supply being connected, the equipment will also require a technician to come from abroad to adjust the machinery so that it does not damage the seed. Yet other equipment available appears underutilised, such as the seed cleaning and sorting equipment at the IIAM centre near Nampula, with a capacity of 800t per year, which IKURU could have made more use of to process its seed crop.
- Dependence on, and inability to obtain timely access to, bank credit for financing seed purchases has meant that soya seed was stored on producers' farms for three months or more in the 2010 marketing season.
- More generally, IKURU handling and storage appear unsuited to maintaining seed quality, as there is no storage or transport at regulated temperatures. An air-conditioned storage space has been constructed within an existing warehouse in Gurué, but this will only be useful if it receives seed soon after harvest and if steps are taken to avoid exposing seed to high temperatures during transport.
- Insecticide treatment of sesame seed to protect against sesame flea beetle (see above) appears inadequately tested or understood, as it has been blamed for causing reduced germination percentage in sesame seed. There does not appear to be any clear explanation that can guarantee this will not happen again.
- Monitoring of seed quality in terms of its germination percentage is not undertaken systematically at different stages of seed processing and storage.

- Monitoring and advice of seed producers' field operations seems weak, with instances discussed of seed producers interpreting their contract in terms of area sown, and, in the event of a shortage of the seed supplied by IKURU, extra seed from other sources being used to complete the area – thus introducing mixtures into the seed crop.
- There appear to have been questionable decisions taken about which seed varieties to multiply. In the case of soya seed multiplied in 2010-2011, for example, nearly half the contracted seed production was of “TGx” varieties whose release had yet to be authorised by the Ministry of Agriculture. As far as it was possible to ascertain, these varieties had not yet even been tested at farm-scale, and, in May with the harvest due, the IKURU technicians had been informed that the crop might not after all be considered for seed.
- Turnover of technical staff during the course of the agricultural growing season further diminished an already precarious ability to monitor producers contracted to grow soya seed in Zambezia. Confidence in this monitoring activity is further reduced by comparing the lists of seed producers in January and in May. The former consists of three lists: “IKURU seed multipliers”, “CLUSA seed multipliers”, and “Emergentes” (producers with larger areas). These together total 76 producers and 357ha. In May there are only two lists, headed “IKURU” and “CLUSA”, totalling 60 producers and 267 ha. However, some of the names on the January “Emergentes” list appear on the May list of “CLUSA”. Since the technician who made the first set of lists left mid-season, it is difficult for his newly-arrived replacement to explain discrepancies.

Taken together, these observations provide insight into interviewees' accounts of poor germination experienced with seed supplied by IKURU. It suggests that the company's technical management has not yet put in place a system capable producing seed reliably to a sufficiently high standard to compete with foreign commercial seed companies. These comments relate to the quality of technical management of seed production and are thus distinct from the analysis of other aspects of IKURU's management, which have been reported elsewhere. They conflict with the view that IKURU's existing seed production provides a sound basis for a future restructured commercial company. It is important to consider that at least 50% of IKURU's seed sales are to NGOs who subsidise their subsequent distribution to producers. It seems inescapable that sales would be very much lower if producers had to buy unsubsidised seed direct from IKURU, and raises the question of what level of seed sales IKURU would achieve among producers with its current record of seed quality. There seems to be strong evidence that high quality seed will find a market among producers of cash crops for which there is strong demand, including soya bean, sesame, and (taking account of demand for different grain types) groundnut. There appears also potential for production of bean seed, particularly different types of *feijão manteiga* (*Phaseolus vulgaris* or kidney bean), and also cowpea. Total demand would easily reach 500t/year (IKURU planned seed multiplication in 2011 of over 400t for soybean alone), and most likely 1000t/year if quality and price were competitive. It is fair to say that 'seed multiplication' contracts in Mozambique are widely regarded as having been abused by seed producers seeking to maximise their earnings to the detriment of seed quality (e.g. by adulterating the seed crop with other non-seed production etc), so there is very clearly a market for a company capable of claiming a reputation for consistent high quality. It also needs to be clear that if IKURU does not quickly raise its standard of technical management, then other agencies, both NGOs and commercial companies, will be capable of taking its place, most likely using the same contract farming model that IKURU itself has used.

3.3.3 Extension services to small and medium-scale producers

“Agricultural extension” in Mozambique has historically been associated with specific commercial activities, such as cotton production. Many smallholders are familiar with the use of agrochemical inputs, such as fertiliser and pesticides, having applied them on cash crops produced under contract (fertiliser in the case of tobacco, and insecticide in the case of cotton). The general lack of use of such inputs can be attributed to the low expected returns, due to the high cost of inputs, the uncertain market value of the crop and the risks attached to rain fed production. Contract farming goes some way to providing an assured market for the crop and encourages input use, although it may not necessarily overcome perceptions of risk. Where farmers perceive good returns from growing high-

value crops, there is evidence they will pay for inputs at market rates, as in the Angonia study mentioned earlier, where farmers were willing to pay market rates to buy fertilizer to apply to an irrigated potato crop, but not to rain fed maize.

Agricultural extension has not featured strongly in the remit of government agricultural agencies at provincial or district level, except in addressing “public health” hazards posed by major pest or disease outbreaks, when government officials are responsible for implementing phytosanitary measures. In 2010 the Nampula provincial directorate of agriculture (DPA) treated some 6000 ha of sesame in an effort to stem the infestation of the crop by sesame flea beetle. The Nampula DPA is also responsible for distributing subsidised seed and fertiliser to maize seed producers under the government’s “green revolution” programme funded by IFDC and USAID. Government agencies have taken much less of a role in initiatives to establish producer or farmer associations in rural communities.

For two decades such work has largely been undertaken by NGO projects funded by foreign bilateral or multilateral development agencies. This lends a strong degree of path-dependency to the way that ‘agricultural extension’ is funded and organised. In Nampula province, for example, USAID funding is allocated via CLUSA to two different NGOs (Africare and SCF) who pay extension agents working in different districts of the province. The USAID funding also pays for CLUSA technical staff based in Nampula who supervise the Africare and SCF extension staff contributions to the SANA (food security and improved nutrition) programme at the level of village associations. Quite apart from the complexity of this extension system, it seems very vulnerable to cyclical shifts in focus and funding on the part of external funders. Moreover, the need to maintain flows of funding from a variety of funders means that extension workers become responsible for multiple agendas, essentially “doing a little bit of everything”. Therefore, despite clear impacts, for example in promoting cash crops sesame and soybean over the past decade, it seems timely to review how this externally-funded extension activity could develop in the longer term.

3.4 SUMMARY AND CONCLUSIONS

The central and northern regions of Mozambique contain more than half the cultivated area of the country but a disproportionate share of national crop output, including 90% of maize and 75% of rice. All but five percent of the area producing crops in these regions is cultivated by small-scale producers. Available statistics indicate production of main food staples has not grown markedly for the past decade. However, recent rises in international agricultural commodity prices, together with initiatives to diversify smallholder crop output, have increased the potential for small-scale producers to benefit from higher market prices. These include both exports, such as grain legumes (beans), sesame and (to a more limited extent) groundnut, and also import-substitutions in local markets, such as maize, soybean and rice. There is some evidence that higher prices have already prompted increases of production of sesame, beans and soybeans, and it seems that strong markets for these crops have prompted recent rises in prices offered for other crops historically grown in the north and centre, such as cotton.

Market growth has increased concern about how to raise the productivity and marketed output of the predominantly small-scale agricultural producers. Two basic models are currently being supported by development funders: contract farming and marketing cooperatives. Contract farming through ‘outgrower’ schemes have historically been used in Mozambique to promote production for markets, most notably for the production of cotton. Current contract-farming initiatives are being promoted by both commercial agencies, including trading companies and larger-scale producers, and also publicly-funded programmes, such as Agrifuturo. In the latter, emphasis is not only on the use of ‘agribusiness partners’ to implement contracts (usually to supply inputs and purchase output) with smaller-scale growers, but also to promote the identification and development of medium-scale producers as potential partners in outgrower schemes. It is too early to judge the outcome of current initiatives to

develop outgrower schemes, but it will be important that they avoid repeating the pattern of earlier cotton contract farming, which suffered from late payments and failure to purchase all outgrowers' crop, leading to its abandonment in 2009. A further concern is that, to the extent that outgrower schemes may be based on foreign investment in large-scale production – potentially constituting a 'hub' for input supply and crop storage for outgrowers, there is a need for a more thorough approach to rural land use planning to avoid land conflicts between foreign companies and local communities of the type that have arisen in Lioma and Monapo.

The alternative cooperative model, which has only become possible since recent legislation has allowed 'for-profit' farmers' organisations, has fewer antecedents and major challenges in terms of the need for cooperatives to develop the necessary management skills to run large commercial operations and negotiate transactions in agricultural markets. It needs to be understood that the two decades of 'producer associations' fostered by externally-funded extension systems are not an adequate base on which to build a commercially-oriented marketing cooperative. It needs to be further understood that banks in Mozambique are cautious, if not hostile, to lending to small-scale agricultural producers, and that cooperatives will need to generate working capital from their own members and their trading operations. The experience of the ALIMI cooperative in southern Niassa, now in its third year of trading, will be of great interest in this regard.

If producers are to benefit from agricultural markets in the longer term they will need to raise productivity and reduce production costs. Key constraints that need to be overcome include the risks arising from rainfall uncertainty during the growing season, the comparatively high labour input (and correspondingly reduced labour productivity) in hand-hoe cultivation systems in most of northern Mozambique, and the frequently poor standard of seed available. To overcome the problem of rainfall uncertainty it seems likely that in future investment in infrastructure to provide supplemental irrigation will need to be addressed. In the more immediate term, interest is likely to focus on 'conservation agriculture' (CA) as a means of improving soil and rainfall productivity. However, empirical experience in Angonia indicates that introducing CA principles in hand-hoe systems involves complex trade-offs of labour allocation and a thorough understanding of opportunity costs of labour in each specific agricultural context. This indicates that adaptive research on CA opportunities among crop producers in northern Mozambique is urgently needed if it is to offer a realistic alternative to current cultivation systems. Income from cash crops means that larger-scale 'emerging' farmers (cultivating in excess of 10 ha) can be expected to seek mechanisation by acquiring tractors and at least one farmers' association in Lioma has already done so using its own funds. Mechanised production not only offers possible gains in labour productivity, but also makes more accessible existing CA technology of the type developed in Latin America, although this does not form part of the technology proposed by programmes supporting 'emerging' farmers. Mechanisation raises questions about support services (spares and maintenance) that have yet to be shown to be reliable, but also about how smaller-scale producers will be able to benefit from the increased availability of tractor cultivation.

The present conjuncture in northern and central Mozambique suggests a market for seed for grain legumes and oilseeds of between 500 and 1000 tons/year in the near future. IKURU's status as the only Mozambican company with a licence to produce and sell seed places it in a favourable position to exploit this market. However, in addition to more general problems of corporate management, there is evidence that IKURU's seed production is currently incapable of guaranteeing a consistent high quality of seed that would enable it to compete effectively in a market that already has a number of foreign-owned commercial competitors. If this is to be rectified, there needs to be a radical improvement in the technical management of seed production and storage, as well as more strategic clarity on issues such as crop varietal selection and seed market identification. It is likely that, if market incentives to increase production persist (and there are indications that for crops such as soybean this is likely for at least the next five years), there will be growing demand from producers for inputs such as fertilizer and pesticides. With certain exceptions (such as treatments against sesame flea beetle), demand for such inputs is unlikely to form a large market until crop output markets are more firmly established and producers have greater confidence in market stability.

4 ACCESS TO FINANCE AND CREDIT IN THE AGRICULTURAL SECTOR

When discussing access to finance and credit for development in the agricultural sector in Mozambique, we must distinguish between access to finance at two levels. At one level we have commercial companies and – potentially – larger-scale cooperatives and commercial farms seeking access to finance and credit. At another level are the individual farmers, together with farmers' organisations without the possibility to come up with collaterals or track records that categorise them as "bankable". As we shall see, however, access to finance and credit is a challenge, and in some ways a real problem at both levels. This chapter seeks to point out some of the causes and dynamics of the present situation.

4.1 CREDIT AND EQUITY²¹

Let us first focus on the companies and larger cooperatives' level. According to a study prepared by Technoserve for USAID, non-donor financing for agricultural businesses in Mozambique comes from two main sources; equity investment and commercial bank financing (Technoserve 2010:6). *Equity investment* in Mozambique is, according to this study, dominated by family-financed equity investments, while "equity partnerships are relatively uncommon" (Technoserve 2010:6). This means that there are numerous small businesses created at family level with family members as shareholders. The fact that "equity partnerships" are uncommon indicates on the one hand that most equity investments in Mozambique are not traded in a market. But it may also be an indicator of a more general lack of *trust* beyond family-based commercial operations. Still, according to the Technoserve report: "Equity investment is required for most businesses in Mozambique, regardless of industry or scale" (2010:6). At the same time there is limited interest to invest in equity (partnerships). To this quandary comes another factor: "A competitive equity investor would seek in excess of a 35% rate of return on a given investment..." (Technoserve 2010:7). To meet these requirements on return is a real challenge, and in many cases impossible for agricultural enterprises. How can such high interest rates be explained? In order to give an explanation, it is necessary to take a closer look at the financial sector in Mozambique.

4.1.1 The role of commercial banks

According to Technoserve, it is now commercial banks which are the most active participants in Mozambique's financial sector (2010:7). They serve as depository institutions, but also provide loans to selected businesses and individuals. That is: "Commercial banks tend to concentrate their loan portfolios with a limited number of well-known borrowers" (Technoserve 2010:7). This means that most businesses have difficulties in accessing credit; and when credit is obtained, interest rates commonly exceed 25%. Quoting another study on financial sector constraints²², the Technoserve report sustains that:

Interest rates on loans to private businesses are uncharacteristically high in Mozambique, even in the context of a developing economy in sub-Saharan Africa. While high inflation contributes to high interest rates, the cost of debt in Mozambique exceeds the level that could be readily explained by inflation. (Technoserve 2010:29).

The explanation for the high interest rates is, according to the Technoserve report, primarily to be found in the prevailing high *prime rate* in Mozambique. The prime rate is set through the Mozambican government's treasury-bill auctions processes. This is the mechanism through which commercial banks provide capital to the government (Technoserve 2010:7). Only commercial banks

²¹ Stefano Gasparini, Agrifuturo Project, Chimoio, and Andreas Bomann Larsen, Formuesforvaltning AS, Oslo, have provided important inputs to this sub-chapter.

²² Nathan Associates, "Financial Sector Constraints to Economic Development", June 2007.

operating in Mozambique can participate in these auctions.²³ This means that there is limited competition when it comes to 'buying loans' in the form of treasury bills from the government. The 'low price' that the commercial banks are willing to pay for the treasury bills are expressed in the high interest rates they demand in the auction process. The implications for the general interest rates in Mozambique are described as follows: "As the least risky form of debt, the interest rate on Mozambican government treasury bills is considered the prime rate, and therefore sets the basis for all other interest rates in the economy" (Technoserve 2010:30). For other loans, which involve higher risks to the banks, the banks will charge a *risk premium*, with the result that "interest rates on commercial loans must be priced at a substantial premium to treasury bills in order to be compelling investment alternative to a commercial bank" (Technoserve 2010:31). Taking into account that agriculture is, in many ways, a *high risk activity*, interest rates above 20% on credit is problematic, especially for emerging and/or undercapitalised businesses. It also means that Mozambican enterprises that only have access to internal financial markets will be at a disadvantage compared to international companies and businesses that have access to international credit markets with considerably lower interest rates.

When agricultural businesses request loans from banks, the commercial banks will be particularly concerned with security. In addition to high interest rates, commercial banks may require guarantees from third party development funds for small and mid-sized loans (Technoserve 2010:7). In this way, the risk in a given loan is basically transferred to the development fund. These *guarantees* may be requested in place of, or in addition to security in the form of collateral, as a lender will "usually require that the value of any loan is secured partially, or in full, by the assets of the borrower in the form of collateral" (Technoserve 2010:32). The inherent problem of providing collateral for loans is often used by development agencies (including USAID) to criticise the situation of land ownership under the Mozambican Land Law of 1997 (*Lei 19/97*). This law confirms what is stated in the Mozambican Constitution; that land is – in the last instance – state property, which in practice means that agricultural land is out of the picture for use as collateral. Here we would sustain that for agricultural businesses, the given legal framework on land means that it becomes even more important to invest in and build assets that can also serve as collateral within the given legal framework – such as warehouses, buildings, productive machinery. The need to secure loans through collaterals also means implies that it is highly problematic for an emerging company to be *undercapitalized* from the start, which has been the case with IKURU (cf. Ch. 2). Credit, especially credit with high interest rates, becomes more risky when a business has very low stock capital, and thus few assets that can serve as security for loans. This, in turn, brings us back to the question of the conditions for equity investments in Mozambique.

4.1.2 Equity investments and development funds as alternatives

As indicated above: "A competitive equity investor would seek in excess of a 35% rate of return on a given investment..." (Technoserve 2010:7). As we have shown, this can largely be explained by the high interest rates on loans in Mozambique. In addition comes tax implications, but more importantly, perhaps, the issue of equity *risk*. Equity investments usually imply considerably higher risk than lending money to a bank. Potential investors, seeking maximum returns on their investments, will typically consider three factors:

- The "soundness" of the enterprise – in business terms

²³ The following commercial banks operate in Mozambique (the list does not claim to be exhaustive): African Banking Corporation Mozambique, SA (BancABC); Banco Comercial e de Investimentos, SA (BCI); Banco Internacional de Moçambique (Millennium BIM); Banco Terra, SA; Barclays Bank Moçambique SA; First National Bank Moçambique, SA (FNB); KfW IPEX-Bank GmbH (with headquarters in Frankfurt); Mauritius Commercial Bank Moçambique, SA (MCB); Moza Banco, SA; Standard Bank SA (with headquarters in RSA).

- Return on equity
- Track record

An agricultural business enterprise like IKURU may have difficulties in getting high scores on all three. However, a potential investor may also consider the future prospects of the business: Is it operating in an area with high growth potential? With the envisaged expansion of commercial agriculture in Mozambique, the demand for high-quality inputs, such as seeds, is likely to increase considerably. Thus IKURU is operating in a field with high growth potential. The previous chapters indicated needs for improvement with regard to management in IKURU, and in particular emphasized the needs for improvements in technical management (cf. Ch. 3). With the planned changes to correct the situation being implemented, the risk of investing with IKURU is still likely to be considered as very high from a conventional investors' perspective.

Agricultural business units linked to national producers' organisations in Mozambique apparently require *soft loans* to develop. New investor possibilities for IKURU and cooperatives linked up with IKURU in the future may be found in international development funds. Potential institutions that have come up during this study are: EACF – Africa Enterprise Challenge Fund²⁴, supported by DANIDA, DFID, IFAD, as well as the Netherlands Ministry of Foreign Affairs, which may provide opportunities for businesses in Mozambique. AGRA – *Alliance for a Green Revolution in Africa*²⁵ is already providing funding for initiatives in Mozambique, e.g. through the PROMER project in the northern provinces (cf. Ch. 3). AGRA has also committed funding for agricultural development initiatives in the Beira corridor, and is now making finance available through Standard Bank in Mozambique²⁶. For Norwegian partners, it would seem relevant to enter into a closer dialogue with *Norfund*, as a Norwegian private equity company established by the Norwegian *Storting* 1996 with the overall objective of fighting poverty. Owned by the Norwegian Ministry of Foreign Affairs, Norfund both makes direct investments and provide loans to companies, and makes indirect investments through (development) funds.²⁷ In central Mozambique PSSR, an Italian-funded project of Support to rural development (in the period 2010-2013) directed at eight districts in the provinces of Manica and Sofala, contains a microcredit fund component. Credit (soft loans) will be extended for agriculture, marketing and distribution, as well as agro-industry; with interest rates not exceeding 12%. Repayment schedules will vary from 12 months for harvest credit to 5 years for investments.²⁸

The ToR for the present report requests that the discussion also relates to the planned investments through the *Beira Agricultural Growth (BAGC)* initiative. The background and basis for this initiative is described in an earlier report on *Agro-investment in Africa* (Kaarhus, Haug et al. 2010).²⁹ The BAGC is relevant in this context through its alternative approach to providing credit and equity to commercial agriculture initiatives. It has established a Catalytic Fund, totalling 19.7 million USD by September 2011, and being organised as an investment company. It may be operative as such in 2012. Its capital is, at least so far, money from donors: the Norwegian Government, in addition to DFID and Dutch Cooperation; and the idea is that it will be a revolving fund. The investment company will be able to provide loans and make equity investments in agricultural businesses. But in an interim period there have already been two calls for business proposals for funding. Interest rates will be flexible, but are set to 5-10% in the initial period, while good and realistic business plans to a great extent will be accepted as a basis for support, without guarantees in the form of collateral. The idea is that agri-businesses that receive support from BAGC Catalytic Fund will develop into enterprises that in the

²⁴ EACF website: <http://www.aecfafrica.org/>

²⁵ In an African context, AGRA – *Alliance for a Green Revolution in Africa* – is a partnership-based agency seeking to promote a fundamental transformation of African agriculture, i.e. an 'African Green Revolution'. AGRA website: <http://www.agra-alliance.org/>

²⁶ On the agreement which is the basis for these loans: <http://www.agra-alliance.org/content/news/detail/910>

²⁷

http://norfund.no/index.php?option=com_content&view=category&layout=blog&id=76&Itemid=206&lang=no

²⁸ PSSR project data: <http://41.220.166.65/projects/493888-9021-1#>

²⁹ The report can be accessed at: http://www.umb.no/statisk/noragric/publications/reports/2010_nor_rep_53.pdf

long run can be able to access capital on “normal” market terms, nationally and/or internationally.³⁰ So far, however, the scope of BAGC is limited to the larger area defined as the “Beira Corridor”, which covers the provinces of Manica and Sofala (like the PSSR project), but is stretched north to include Tete Province – with gigantic investments in mineral and carbon extraction at present.

Development funds directed at the agricultural sector will, as funding sources, also use “sound business” among their criteria for investment. It therefore seems essential that IKURU can solve its own internal and technical management problems, and get “on track” before seeking funding for new projects and further expansion. In this context it is, however, also relevant to analyse the challenges of getting access to credit, as experienced by IKURU with a bank known to have been established precisely to provide financial services for the agricultural sector in Mozambique, Banco Terra. Thus the following section will focus on the perspectives and views expressed by bank managers, and the implications for its relationship to a company such as IKURU.

4.1.3 Policy and experiences: Banco Terra and IKURU

Banco Terra was established in Mozambique as a commercial bank after several years of negotiations, with Rabobank³¹, GAPI, Norfund and KfW³² as shareholders, and started operating in 2008. The same year it opened a branch office in Nampula; the centre of one of the major agricultural production regions in Mozambique (cf. Ch. 3), where IKURU is also based. Banco Terra has been met with huge expectations to serve as a development bank for the agricultural sector (Hanlon & Smart 2008:182). These expectations are clearly expressed in an article published on Oxfam-Novib’s website in 2010:

As long as the main producers – millions of small farmers – are lacking credit facilities, the huge agricultural potential of Mozambique will remain idle. However, banks are reluctant to grant loans for a hazardous business like agriculture. Crop failures, caused by droughts or floods, are always looming. Products decay before reaching the market, due to bad roads and too little storage capacity. And the market itself is flawed, malfunctioning or unfair. Thus arises the vicious circle of an agricultural sector that is not able to professionalize by lack of capital, and is not able to attract capital by lack of professionalism.

Banco Terra can breach this vicious circle. But in order to survive, the bank needs creditworthy clients. Hence, the bank is cushioned by a sophisticated network of governments, financial development institutions and non-governmental organisations. This network envisions making producers fit for the market, preparing the market for a larger production, and deploying that larger production for poverty reduction.³³

According to Banco Terra’s own website, it was created by its shareholders with the aim of contributing to poverty reduction within the framework of the Millennium Development Goals. More specifically, it aims to provide rural, but also urban and peri-urban populations with access to a complete range of financial services in a viable and sustainable way, and to create positive impacts for its clients, and in areas that contribute to the economic and social development of the country.³⁴ According to the Banco Terra website, it dedicates its operations especially to the agricultural sector, and seeks to provide financing for whole value chains, including inputs, processing, and farmers

³⁰ BAGC website: <http://www.beiracorridor.com/>

³¹ Rabobank is an international financial services provider based in the Netherlands. It operates on the basis of cooperative principles, and in its international operations focuses on food and agribusiness.

³² KfW banking group is a German government-owned development bank based in Frankfurt.

³³ Article written by K. Bais, which can be accessed at:

<http://www.oxfamnovib.nl/Redactie/Downloads/Rapporten/Article%20Banco%20Terra%20ENG%20ON%20def.pdf>

³⁴ <http://www.bancoterra.co.mz/sobre-o-banco/>, accessed September 26, 2011.

associations. But the BT website also points out that it aims to be lucrative as bank. According to central level managers in BT, the bank has a mission, but it is not doable in full. Clients' "bankability" is a key factor here.

The 'prime rate' (cf. Ch. 4.1.1) is setting a baseline for the interest rates, and Banco Terra itself pays a interest 17,5% on its own loans from the Central Bank. When extending loans to clients, Banco Terra will has charge 20% as a minimum interest rate, and commonly charges up to 28,5% for loans to the agricultural sector.

The Banco Terra branch in Nampula has at present 15 employees. It provides loans to all sorts of businesses, but also to individuals, offering savings-account agreements with access to credit. However, loans extended to the agricultural sector, and to agri-business in particular, only amount to about 4% of the total, according to BT managers in Nampula. Among its clients are some farmers' associations and "emerging farmers" and a few companies, including IKURU. The bank management maintains that 40% of loans should be dedicated to the agricultural sector. At the same time, they recognise that at branch level, they do not have real decision-making power. At BT in Maputo, central level managers state that in Banco Terra's total national balance, 35% is related to the agricultural sector. BT has for instance entered into a partnership with the agribusiness company Mozfer and local producers in Chokwe (Gaza Province). BT also provides financing for a number of South African and ex-Zimbabwean farmers *in* Mozambique with larger-scale projects, realistic business plans and/or "sound business" records. On this basis they have been considered 'bankable'.

Bank managers in Nampula explain that loan proposals are prepared in the Nampula branch office, but the analyses and decisions are made in the head office in Maputo. At the branch level, one of the main problems they see is that their clients lack guarantees that can secure their loans. This is also a problem in their relationship with IKURU. They recognise that there is a problem with e.g. providing duly registered collaterals, and this is one of the reasons why the processing of applications may be drawn out. At the BT central office, it is recognised that the processing of loan applications in the bank are too slow. Their explanation is a standard explanation for diverse problems in Mozambique; which is lacking competence among staff. But a more specific factor is also pointed out; there is lacking of understanding of what type of information is necessary for a bank to make a decision on credit to a client.

Nampula branch managers believe that the track record of IKURU with Banco Terra is good. At Nampula branch level they see IKURU as a good client. According to the Branch, IKURU has tended to be late in presenting their loans applications, but there has been no delay in repayments, and there are good relations with the IKURU management. BT has not been affected by IKURU's problems. They believe it is the small-scale farmers who have suffered – or whom IKURU has "made suffer" – not the bank. Central level managers recognize that IKURU has actually repaid its loans, but still they do not consider IKURU as 'bankable'. The reason is the company's economic performance. According to BT, IKURU has had losses on operations for several years. They see that part of IKURU's management costs are not in the balance, and the company's annual balance is positive in 2011, it is because of extraordinary incomes – from NGOs. IKURU's losses they see as due to internal mismanagement and incapability. In addition comes the lack of collateral: "We always said: Present us with a clear collateral! But IKURU is not capitalizing." The reason that IKURU has actually received loans from BT for several years – but much too late from IKURU's and the producing farmers' points of view – is that these loans finally have got guarantees from "external actors"; and in this regard GAPI has played a crucial role.

From the BT central offices perspective, IKURU is not 'bankable', but also falls within a category of clients that usually default on loans. In fact, in the strategic thinking of Banco Terra, focus in agricultural development should be on "medium units" in agriculture (above 100 ha). Neither small farmers nor cooperatives of small scale farmers are 'bankable' in this perspective. Small-scale farmers combine low production volumes with high risk. This is a risk that Banco Terra is – in practice – not willing to share.

4.2 FINANCIAL SERVICES TO SMALL SCALE FARMERS

Over time, numerous development actors have sought to address the problem poor people have in getting access to credit; also seeing accessible credit facilities as one of the necessary conditions for agricultural development among small-scale farmers in Mozambique. Micro-finance initiatives have thus been on the agenda of a range of different NGOs. For this study we got some information about how such initiatives had been received at the level of local farmers associations. A number of farmers' associations were visited for the present study, mostly in Nampula Province, but also in Zambezia, northern Tete and Manica. Many of the associations had experiences with NGOs who had provided assistance in establishing small savings clubs (*caixas de poupança*), which afterwards had continued operating on their own. There was some variation between the different savings clubs, but they tend to be linked up with the local farmers association, but only some members are interested or willing to participate. It seems to be women who take the lead in organised local-level savings *caixa* initiatives, and generally they operate at a very small scale. The money is usually kept in a box in one of the member's house. Control of the deposits is secured through e.g. two locks, and two different members each in charge of one key. The saving club visited did not entrust their money to formal banks – so far.

In Nacololo, Monapo District, the savings club visited had 14 members. They make deposits during 9 months every year. The *caixa/savings* club provide credit to members with a 10% per month interest rate, while others can access credit with a monthly interest rate of 30%. At the time of visit, the *caixa* had a problem with a civil servant who had not repaid a loan extended to him some time ago, and who had then left the locality, but in such cases they ask assistance from the Local Government (*Posto* or *District* level). The members of the saving club also carry out other activities together, such as jointly cultivating a field (*machamba*) to sell the produce to finance a common project.

In Nametil, Mogovolas District, we met members of a *caixa the poupança* which was established in 2004 with a group of women. Men in the association have their own saving club, according to these women. During the harvest season each member deposits 100 MZN, during the rest of the year, they make deposits every 15 days. As members they can also access credit with an interest rate of 10% per month (which seems to be a standard). At the end of the year, the saving box is opened, and the money is divided among the members; equally, since everyone in principle has made equal deposits during the year. The women members of the savings club also have other joint activities – promoted by external NGOs – such as making theatre performances (with messages on hygiene), and joint chicken rearing. At the time of the visit, they had 200 chickens which they planned to sell two weeks later. In Ruace – situated between Gurúè and Lioma in Zambezia Province – there was also a women's group that carried out different activities. This was the locality which in economic terms had clearly benefited from the introduction of soya cultivation with assistance from CLUSA. Both women and men were at present engaged in soya production (see also Ch. 3). The women were, however, more active than the men in the *caixa de poupança* – organised along the lines described above. But in addition to the savings club, they had also organised a nursery, they had learnt embroidery, and were also making soya milk, soya bread for sale locally etc. The dilemma here is, however, that even though women cultivate soya with equal success – or even higher productivity – than men; when external development agents come with plans to support “emerging farmers” at a somewhat larger scale, they end up addressing male farmers, and channel the credit they may have available to the men.

In Mozambique, a relatively recent actor in this field which may be of particular interest for emerging agricultural cooperatives is *BOM – Opportunity International*. When starting to work in Mozambique in 2005, it took over where CARE among others left the field of micro-finance. BOM receives funding from among others Bill and Melinda Gates Foundation, and from SIDA. At present BOM has 14-15 branch offices in Mozambique. In the geographical areas primarily to be covered by the present study: the provinces of Nampula, Niassa, upper Zambezia and northern Tete, BOM has a branch in

Ulongue (taken over from Barclay's Bank, in northern Tete), and was opening one in Gurúè (upper Zambezia). The location of these branch offices illustrates a strategic decision: to focus on rural areas and provide finance for smallholders' crops. In addition, BOM operate with mobile banks, which appear as a promising innovation in micro-credit facilities in Mozambique, and the experiences being gained now should be of considerable interest for all actors seeking to promote the development of small-scale agriculture.

BOM offers savings accounts, paying 10-17% interest on even small deposits under savings agreements. The interest rates on loans range up to 30%-35%. On the one hand, this is micro finance, and taking into account that Banco Terra charges interest rates between 25 and 30% when credit is extended to clients with guarantees in the agricultural sector, these rates may be considered "normal" in a Mozambican context. However – as argued above – these interest rates are so high that they represent an obstacle for the agricultural sector to develop. On the other hand, BOM also offers financial advice to farmers associations (and coops) wanting to apply for credit. In their selection of clients, one criterion is *storage* – in the form of storage capacity or storage facilities³⁵, as the crop itself is accepted as a guarantee for the loan – until it is sold. In this connection, BOM sees it as an advantage to operate with mobile banks, since that makes it possible for the bank to monitor closely the sales/buying processes of the farmers' (stored) crops, and it also means that BOM can provide cash on the spot when needed. Another important criterion for BOM is in fact *trust*; and in the case of farmers' organisations, it is both trust between the members of the organization, and a management wanting to share benefits with the members (and in this way is trustworthy for members).

This emphasis on trust as a condition for providing financial services – based on a conviction that trust is an essential condition for financial markets to work – is at different levels a "lesson" with some implications for new initiatives in promoting cooperatives and supporting farmers' ownership in agri-business companies like IKURU. It is necessary to build on trust, but it is also crucial to build trust – in Mozambique. Distrust and suspicion grow by themselves – and are commonly expressed through allegations of misappropriation of funds or stock – while it is necessary to build trust. This is, however, not to be naive. On the contrary; to build necessary trust, arrangements for (mutual) control, monitoring and accountability must be established, but in ways that also build trust. Cooperatives have in principle this type of consideration built into the "model". The point here is rather the need to work more systematically to build trust within the context of promoting new cooperative linkages in Mozambican agriculture.

Operating as a bank, BOM also sees no contradiction between emphasising "trust" and claiming that there is "too much interference in the (agricultural) market" in Mozambique. This means that there are many players in the agricultural markets that do not operate according to the "rules of the game" – as market. If products are donated in one stall in a market place, it is difficult to sell the same product in another market stall. This is a common criticism among business-oriented actors in the agricultural sector, and a criticism that is also directed at NGOs operating with the logics of a "gift economy" – to fulfil their own defined objectives.

³⁵ WFP has plans to assist organised farmers to get warehouses – for storage of products the WFP will make commitments to buy. If this works, it can be a valuable support to well-organised farmers. But obviously a warehouse also requires management, control and maintenance.

4.3 NEW OPPORTUNITIES?

The new Mozambican Strategic Plan for Development in the Agricultural Sector (PEDSA 2011 – 2020) states that it is a Government priority to improve farmers' access to credit. In the PEDSA document (PEDSA 2011), improving access to credit for farmers is set out among the defined strategies under Strategic Objectives – pillar 1: Agricultural productivity.

At the same time, several donors have been developing programmes to provide incentives for commercial agriculture development in Mozambique, at least in part including mechanisms to provide credit and funds that are accessible for farmers. At present, it seems to be so-called 'emerging farmers' who are prioritised. So far, these initiatives do not seem to be placed within a larger framework of collaboration between donors and the Government, but the PEDSA 2011-2020 should be able to serve as a framework for discussion about more concerted action, also with regard to credit. Here two new programmes will be mentioned, which were both in a planning phase during the first half of 2011. They both appear to be designed with conceptual approaches similar to that of the BAGC (see above).

DANIDA, the Danish International Development Agency, has signed an agreement with the Mozambican Government to support a larger Private Sector Development Programme in the period 2011-2015. This programme includes an Agri-Business Development component. Under the Agri-Business component, a non-profit loan guarantee fund will be established, under the name FUNDAGRO. This fund should among others provide funding to facilitate agri-business services.³⁶

The Netherlands Development Organisation SNV has been developing the concept of *Inclusive Business* to guide international development support activities, among others to the development of commercial agriculture.³⁷ SNV will also introduce this approach to their activities in Mozambique. To what extent "Inclusive Business" in a Mozambican context will also contain investment and credit mechanisms, however remains to be seen.

³⁶For a preliminary description of this initiative, cf. the link (which is actually a job description, but informative): http://www.danidajob.um.dk/NR/rdonlyres/825781D8-8711-4AA3-BF7A-5FCF8E29B0A7/0/Jobprofile_2011MOZ02.pdf

³⁷ On Inclusive Business, see link: <http://www.snvworld.org/en/ourwork/Pages/inclusivebusiness.aspx>

5 FARMERS AND ORGANISATIONS

While Chapter 2 was primarily concerned with the formal legal framework for farmers' organisations, and presented some information of the historical background of the establishment of IKURU and how the new *farmer-owned company* was connected to the work of development agencies and NGOs to create networks of farmers' associations, the present chapter will look at how farmers associations work. Clear and fairly characteristic views and perceptions expressed in meetings with members in associations affiliated with IKURU in Nampula and Zambezia provinces will be presented (in Ch. 5.3) to fill in the larger picture.

5.1 General Characteristics of Farmers' Organisations: Central and Northern Mozambique

As part of the study presented in this report, a sub-study was carried out to get an overview of producers' organisations that provide inputs and services to their members. The making of such an *inventory* – list or (preliminary) register – of organisations was for practical reasons concentrating on the northern and central provinces, with a particular focus on Nampula, but also includes a list of associations and cooperatives affiliated with UNAC at the national level³⁸. With AMPCM (Maputo) in charge of the sub-study, regional data collection was sub-contracted to MIRUKU³⁹ in Nampula, and to APAC⁴⁰ to cover primarily cooperatives in Zambezia, but also farmer's organisations in the provinces of Tete and Manica. The full report from AMPCM (available only in Portuguese) is worth consulting in its own right for its baseline information overviews (AMPCM 2011). Here it is only possible to deal with some cross-cutting trends in these overview "inventories".

The AMPCM sub-study, including the inventory, confirms that the large majority of farmers' organisations in Mozambique are *associations*. The sub-study supports the view that even though it is often claimed that these associations are – or should be – market-oriented, according to the legislation (such as *Decreto-Lei no 2, 2006*, cf. Ch. 2.1 in this report) they are not legally in the position to sign commercial contracts. In principle they should dedicate their activities to social, educational – maybe even political – work. The sub-study further shows that, in practice, they are in fact only to a limited extent "market-oriented"; that is if we define markets in this context in terms of supply and demand of agricultural commodities, services and inputs through commercial exchanges. Here it should, however, be added that if their "market" from small-scale farmers' perspective also includes supply and demand for services provided by NGOs and inputs donated by different development agencies, small-scale farmers can to a much larger extent said to be "market oriented". Their strategies and practices must in fact be interpreted taking into account that farming is a high-risk activity. In Mozambique it involves higher levels of uncertainty than in many other countries, and Mozambican small-scale farmers tend to be very poor. Even if they in a regional context have good conditions with regard to access to land, the combination of uncertainty, risk and poverty make them highly vulnerable.

The AMPCM sub-study shows that almost all the farmers' organisations identified when making the inventory, including the "older" (pre-2010) cooperatives listed in the inventory, are affiliated with the National Farmers' Union, UNAC. Another important finding is that the majority of the organisations affiliated to UNAC are not formally registered as associations. Cooperatives are, on their part, all formally registered. But farmers' organisations formally established as cooperatives do not, according to this sub-study, operate in any significant way differently from the large majority of farmers'

³⁸ UNAC – *União Nacional de Camponeses* (National Farmers's Union) is an national organization formed to defend farmers interests in Mozambique, seeking to influence the political level. At the international level, it is a member of *Via Campesina*, and also receives support from external NGOs such as the Norwegian NPA.

³⁹ MIRUKU – *Sociedade Cooperativa de Desenvolvimento e Serviços*, which works as a consultancy cooperative in Nampula.

⁴⁰ APAC – *Associação de Promoção de Agricultura Comercial*

organisations, that is, the farmers associations. Here we will only give a synthesis of the findings in the AMPCM sub study⁴¹.

According to the sub-study, it is very common that the farmers associations have statutes, but it is not common that these are followed in practice. The associations seldom function as such; that is, there is little participation by the members, and often the association “is” the leadership. It tends to be the President, or the President and the Board who “take ownership” of the association, and somehow view it as their “property”. The presidency is often turned into a permanent or “lifelong” position. It follows from that that the leadership is often reluctant to organise new elections, which may result in their replacement by democratic means. In addition to non-observation of statutes concerning democratic performance and leadership, the associations also tend to lack a clear definition of objectives. It seems that many or most of the associations share this type of problems. More specifically the following characteristics are pointed out in the sub-study:

- The organisations generally have a leadership structure in the form of management and board (*Conselho de Direção* and *gestao*). But the organisations seldom have a professional management operating separately from the (elected) board. Normally the presidents of the associations take care of the papers, the responsibilities, and the management of the daily operations of the associations.
- The services offered to the producers are diverse. The most common are capacity building/training and technical assistance. There are numerous national and international NGOs that are involved in and/or intervening in this service delivery.
- Very few of the organisations have business plans. The registered cooperatives have such plans. But the associations do normally neither have business plans (which would in principle be problematic given the legal framework), but they do commonly not have alternative written strategies – which could, in turn, give indications about their market-orientation.
- Most of the organisations have fairly weak linkages with other and similar organisations both at provincial, regional and national levels. The most common linkage appears to be the relationship and membership with UNAC.
- Almost all the farmers’ organisations have connections to funding entities, either NGOs or donors. This is probably due to the fact that without external support, these organisations would not have been formed in the first place because of lack of local resources.

A conclusion that can be drawn from this overview of characteristics of the landscape of existing farmers’ organisations in Mozambique is that it is an *organisational base* consisting of producers’ organisations require further organisational development to forge networks of commercial linkages. The creation of new *modern cooperatives* within the frameworks given by the new Cooperative Law can be one option towards building a basis for the forging of commercial linkages between organisations. However, these new cooperatives will probably need some years to prove their effectiveness and sustainability. In a medium-time perspective, they could, however, be able to create a basis for a wider network of linkages between organisations and farmer owned – or partially farmer owned – businesses. This conclusion seems to be further supported by the APAC assessment, briefly referred to in the following.

5.1.1 Lessons from a 2010 Assessment of APAC

APAC was established in 2006, and is the major organisation working on the ground directly with and for agricultural producers’ cooperatives in Mozambique. It thus provides a very valuable setting for experiences and lessons to-be-learnt by others, both new cooperatives in the making and external partners. An *Organizational and Financial Assessment of APAC and Cooperative partners* was

⁴¹ The most relevant sections in the AMPCM sub-study concerning the issues discussed here are found in Annex 5.

carried out in 2010 (AustralCowi 2010). In the context of the present report, the following observations and lessons learned are of particular importance and interest:

- “The cost and energy required to support and implement an agricultural cooperative business model in the star-up phase is substantially greater than originally projected” (AustralCowi 2010:4).
- There is a need for long term core funding for the organisation providing support to the cooperatives, that is to APAC (AustralCowi 2010:4).
- There is a need for investment in management and governance systems and capacities both in the first and second tier cooperatives, especially with regard to the implementation of internal control systems (AustralCowi 2010:4).
- There is also need for investments making it possible for APAC to provide day to day support to the cooperatives (AustralCowi 2010:4).

The assessment also found that the Boards of the cooperatives tended to “be run by a small group of people who live in the more accessible communities” (AustralCowi 2010:8). This situation limits transparency and accountability in the cooperative itself, but also in the larger structure in which the cooperative is a member (cf. sub-chapter on IKURU below). In fact, according to this assessment: “Very few cooperative board members have a good understanding of their role or responsibilities” (AustralCowi 2010:10).

Another main observation and topic of discussion in the APAC assessment is the problem of finance. In fact, “securing access to risk investment capital for cooperatives is one of the main challenges facing APAC and the sustainability of the cooperative model” (AustralCowi 2010:28). On the one hand, local banks have not been interested to “fund small farmer driven enterprises without a funding guarantor to mitigate the associated risks”(AustralCowi 2010:28). In addition, the assessment also identified a lack of “business capacity readiness” at the level of the producers’ cooperatives to “participate in the financing process and pursue funding in a professional manner” (AustralCowi 2010:28).

The discussion of IKURU’s problems in accessing credit in Chapter 5, and the need for loan guarantees if possible in the form of collateral, make APAC’s experiences with infrastructure investments particularly interesting. According to the APAC assessment, the importance of “infrastructural investments (warehousing and processing) to the long terms viability of cooperative business development” has been an area of focus in APAC since the start-up phase in 2006 (AustralCowi 2010:28). APAC has also been able to secure external funding for several warehouses. The experiences with these investment initiatives have, however, shown the need to see the initial design of the infrastructure projects in a broader perspective in order to make sure the investment is “fully operational and meets the basic start-up needs of cooperatives” (AustralCowi 2010:28). This lesson-learned is, among other things, based on concrete experiences with the construction of three warehouses in the provinces of Manica and Sofala. APAC acquired funding for the construction of the buildings, but they still require “significant investments to fully operationalize the storage facilities”, such as:

...installation of cooling systems and warehouse dividers (key to long term quality control), driveways leading up to the warehouse to support larger transport vehicle deliveries, and bathrooms for warehouse employees (an environmental regulatory requirement). These items were outside the original design of the funding proposal... (AustralCowi 2010:28)

APAC’s experience was that after these warehouses had been built it was difficult to get funding for the additional investments. Furthermore, it became clear that operating warehouses also require operating funds. Warehouses among other things need managers, quality control technicians, and security guards, and salaries have to be paid. In this case, at least, the cooperative business plans indicated that the local cooperatives were not able to sustain these investment and operation costs “in the initial two to three year start-up phase” (AustralCowi 2010:28). This type of costs should

accordingly be built into, not only the funding designs for infrastructure investments, but also producer cooperatives' own value chain and marketing plans.

5.2 CHARACTERISTICS OF ASSOCIATIONS AND *FORA* AFFILIATED WITH IKURU

In presentations, assessments and discussions of IKURU, it is the “farmers’ basis” and an ownership structure involving small-scale farmer ownership which are often highlighted as crucially important characteristics. During 2011, CLUSA in Nampula carried out a “census” – to map and get an overview of current membership and key operations in all associations and *fora* operating in nine districts; and compare these with existing lists of associations and *fora* affiliated with IKURU.

The CLUSA study found that at the level of *fora*, the organisational structure in practice seemed to correspond to IKURU’s existing registrations and lists of members⁴². At the level of associations, however, there were considerable discrepancies between existing lists of associations and membership, on the one hand, and what was encountered on the ground during the “census” in 2011. The number of *farmers associations* affiliated to IKURU was, according to existing lists 286, while the study was able to identify 204. In a few *fora*, the number of affiliated associations affiliated with each *forum* had increased slightly, but in the majority of cases, the number of associations had decreased. At the same time, however, the number of *women’s groups* had increased considerably: From 38 groups registered with IKURU to 69 groups encountered in the field. This is interesting, as it may simultaneously reflect more organised activity among women, and that more external support is channelled to the organisation of rural women in the area. That the number of women’s groups seems to be growing at the same time as the number of farmers associations affiliated with IKURU has decreased cannot, however, be explained to any great extent by former associations being transformed into or replaced by women’s groups. The tendency rather seems to be that the number of women’s groups is growing where there are also other active farmers’ associations. It clearly shows that different types of farmers’ organisations can very well operate in the same localities, without being seen as competitive or mutually exclusive forms of rural organisation.

The AMPCM sub-study contains a section addressing more specifically the situation and internal state of affairs of the associations affiliated with IKURU. According to this section of the sub-study⁴³, during their first years of operations, the associations affiliated to IKURU got considerable institutional support, among others from CLUSA. In this first period they also tended to operate according to the principles established in their respective statutes. When this period of support ended, the internal processes of the associations seem to have changed, and internal processes tended to be directed more by “traditional” models of leadership than by “modern and democratic” principles. According to the MIRUKU sub-study, at present the internal democracy in the associations is usually weak, and where there have been elections, it is usually the same small persons who are shifting positions – and the benefits attached – among themselves. This indicates that the benefits and advantages associated with the leadership positions are valued “resources” in rural communities. It may also imply that proposals suggesting that – external – funds should be used to increase the benefits associated with these positions may not be the way ahead in strengthening the internal democracy and local legitimacy of these organisations.

Among the more specific problems pointed out by the MIRUKU sub-study are also the following:

- The business management performance of the associations is deficient.

⁴² An exception was the forum at Nanhupo Rio, where it was claimed that all the associations had withdrawn from the local forum. Some association members’ views and experiences are presented below.

⁴³ This section of the AMPCM sub-study was delivered by MIRUKU, which is based in Nampula.

- Both systems for registering (product volumes, incomes) and accountability mechanisms are lacking.
- There are no working archive systems in the local organisations.
- Some *forums* have preliminary business plans, directed at the marketing of products with IKURU, but the members are not involved in the elaboration of the plans, or have no knowledge about them.

These characteristics and problems are important elements to take into account in the upcoming process of re-organising farmers' associations, or making new programmes to organise small-scale farmers into "modern cooperatives".

5.3 FARMERS' VIEWS AND PERCEPTIONS

The views and perceptions that were expressed by farmers members of associations and *fora* affiliated with IKURU during the field visits carried out for this study were, of course, somewhat varied. However, at this point it must be admitted that – even though we set out to hear expressions of positive experiences, experiences and perceptions that could be used as constructive building blocks in a future reorganisation process – the farmers' responses were often critical. But there are variations, and the different views and expressions should be taken seriously as such. They comment, fill in and balance the accounts and conclusions referred to above.

In a meeting with IKURU Board members in March 2011, the positive attitudes to IKURU were most prominent. The farmer Board members see themselves as "communication links" between the farmer members and IKURU "central". They see the most positive aspect of IKURU in providing secure markets for (organic and fair trade) products, together with access to credit for producers. Another positive aspect is, in their view, that IKURU is concerned with product quality (organic and fair trade), while other traders are not interested in quality as such. As a result of IKURU as a market actor, they have also experienced that other traders have changed their attitude and performance with the farmers: "They used to treat us as slaves... now they come to discuss at our veranda". Furthermore, the producers themselves have learnt to negotiate and make contracts with agro-dealers. Summing up, they said they believe it is very important that IKURU is a "farmer-owned business". But they held that it is now important to improve the information flows between IKURU and the farmers.⁴⁴

When going to the field to meet and talk with the farmers who are members of associations and representing the *fora* that IKURU is – or has been – working directly with in marketing of products, the stories were, however, more varied. In these meetings and conversations, both women and men participated. But we explicitly said we wanted to talk with women, so at least 50% of the people represented in the quotations below are women.

⁴⁴ There are now various initiatives seeking to improve information to small-scale farmers, including a revival of the "IKURU bulletin", which will not be discussed more in depth here.

Here are first some statements which deal with or can be seen as comments to the development of IKURU and its relationship to farmers over time:

“Years ago, there was a great advantage with IKURU: Immediate buying, immediate payment, and then the extra premium for the [affiliated] associations. Afterwards, they were delayed, the premium never arrived... Therefore, now we prefer to sell to the commercial traders, individually.” (Meeting with women in Nanhupo Rio, Mogovolas District)

In another meeting with members of various associations at Nametil Sede (also in Mogovolas District), one of the men had been present at the last year’s (2010) General Assembly of IKURU, and gave the following account, from his point of view:

“In IKURU, in the last Assembly meeting, the issue was that the company did not have money. The credits given [to producers] had not been paid back. They said that they did not have money to attend all the associations, only some. In the Assembly, there is always a lot of complaints, lamentation... But, *there*, nothing is resolved.” (Delegate to IKURU General Assembly 2010).

In Nanhupo Rio, a meeting was organised with only women – and turned into a very open, informal and engaged discussion.⁴⁵ This view seems to sum up the shared perception among those present:

“When CLUSA was here providing assistance, they linked us up with the fairtrade market; we got a price for the product, and in addition a [fair trade] premium. But we got disappointed; another project arrived, Agrifuturo, with credit for production – but only for some. They involved only MR (a woman present) and, some, maybe four, men...” (Meeting with women in Nanhupo Rio)

The meeting with women in Nanhupo Rio took place just after technical staff from CLUSA had held a large meeting with representatives from most associations and *fora* in the area, in order to inform about the advantages of forming cooperatives. When asked why the women had come to attend the meeting about the coops, they said: “A reorganisation is a good idea. It is a new CLUSA project, this promotion of coops... It provides new opportunities”. When asked what the advantages of the cooperatives are, the clear answer was: “the aim of profitability”.

The positive views encountered in the field about IKURU’s role from the farmers’ perspectives, can be represented by the following statements:

“For us, IKURU is an advantage. If we don’t have seed, IKURU gives seed on credit... But sometimes IKURU is a slow process.” (Association member, Nacololo, Monapo District)

“IKURU has technical staff here, they bring the contracts... and provide assistance. In an association not everybody knows the best methods of production, to plant in lines, cover the soil.... IKURU provides inputs, it’s a good function... Only IKURU does that...” (Association member Nanhupo Rio, Mogovolas District)

“The advantage of IKURU is that they provide training...Other projects that provided training was CARE... and CLUSA, but that ended in 2007. With CLUSA, all the members liked the associations. But that came to an end in 2007.” (Meeting with association members and leaders in Nametil Sede, Mogovolas District)

⁴⁵ The meeting took place in a very small and very hot room. When I found it necessary to try to wind up, however, the women said: “We can continue; we are not tired of talking with you yet!”

However, the critical views were more prominent during these meetings, which primarily took place in May 2011:

“The contract with IKURU gave no results. What happens now is what was happening before; the prices are low, [the traders’] give unfair weights...” (Association member, Namialo, Meconta District)

“IKURU is going bankrupt. They have too complicated contracts...” (Association member, Namialo, Meconta District)

“The collaboration between IKURU and the producers is not good. IKURU is always late...” (Association member, Nanhupo Rio, Mogovolas District)

“Even when buying products, IKURU buys at different prices; here at 37 MZN in another place at 50 MZN... We went to ask why, without getting a good answer... Every year IKURU was late...The harvest season here starts 15 of May, then is the time to buy, but IKURU does not arrive till September, even November...” (Association member, producer of certified products, Nanhupo Rio, Mogovolas District)

The farmers also more specifically talked about how they experienced the certified fair trade and organic contracts:

“With a contract, you are waiting... IKURU, they only came in November, without paying. Only in December they paid. After we went *there* [to IKURU, Nampula] to complain...” (Association member, producer of certified products, Nanhupo Rio)

“IKURU was one year late in bringing the [fair trade] premium... no one-and-a-half year! They, *there* in IKURU said: It is there, in Europe, it is others’ [fault]... With the delay, it is not an advantage, you go here with this expectation...” (Another producer in Mogovolas District)

The following comments are made by farmers with contracts with IKURU on seed multiplication:

“From 2008 we have had a direct contract with IKURU, but last year they only bought [the soya seeds] in October...Before there were other rules. If the producer had problems, he/she could receive the money, which was then deducted from the payment when the crop was sold. When that came to an end, some producers withdrew, to sell just to anybody (*de qualquer maneira*)...” (Association member, Ruace)

“With delays, with all delays, one [as a farmer] is suffering... You start doubting the advantage of producing seeds.” (Association member, Ruace)

5.4 A COMMENT ON WOMEN'S ROLE

In Ch. 3.2.7, in the presentation of the new Cooperative ALIMI formed in 2010 in Niassa Province, the relationship between social norms and new organisations was brought into focus. In the ALIMI case, 52% of the rural association members are women, while women’s presence was close to insignificant at the upper (remunerated) levels of the organisation. The recent USAID program, Agrifuturo, by addressing so-called “emerging farmers” and using “with 10 ha of land or more” as selection criterion, also ended up with a large majority of men. While a farmer (male or female) will normally have 2-3 ha for cultivation, some men manage to enlist 10 ha or more. A way of doing this is that they add the wife’s land to their own, and in addition rent some fields, and in this way seek to access the benefits they hope will come through such a programme for *emerging farmers*. Women

following local norms will have considerable difficulties in doing the same. Members of the women's group in Nacololo said "It is easier for men to rent land, and to invite the wife to work together on the land." A similar pattern appeared when an established *forum*, in Nacololo, responded to the opportunity to enter into a larger-scale contract with a private company, Corredor Agro⁴⁶. In this process, 60 local producers were selected through the *forum* to enter into contracts with Corredor Agro. All were men.

Chapter 3.2.7 pointed to the role of local social norms in generating these gendered outcomes. The fact that new initiatives at a certain scale primarily seem to involve and/or benefit men must also be seen as an outcome of the process of articulation between external agents who are mostly male, on the one hand, and local farmers' spokespersons, who also tend to be men, on the other. Even development agencies with "gender mainstreaming" policies do not seem to be really aware of these dynamics – or they only see them as secondary problems in the larger picture of promoting food security or commercial agriculture development.

⁴⁶ *Corredor Agro* presents itself as "an agricultural supply chain business operating in Mozambique... shareholders are Rift Valley Holdings (www.riftvalley.com) and Matanuska Limited, the controlling shareholders of Mozambique's biggest banana plantation near Namialo (Matanuska Mozambique Limitada). *Corredor Agro* aims to make small scale farmers more productive by providing better inputs, mechanization services, agronomic advice, and access to finance and markets...The company makes margins on supplying inputs, including land preparation, and marketing outputs... *Corredor Agro* plans to be contracting several thousand farmers within 3 years in Nampula Province." <http://kenyanissues.blogspot.com/2010/11/position-of-general-manager-corredor.html>

6 OTHER STAKEHOLDERS' VIEWS AND EXPERIENCES

In the Terms of Reference for this study, central tasks pointed out are the identification of different stakeholders who would be interested in linking up with IKURU, and an exploration of their possible roles in an organised network or new cooperative structure of agri-business entities in Mozambique. This chapter aims to present the views and perspectives of three individuals representing three categories of possible stakeholders: A) an international partner organisation with external donor funding working to promote the development of commercial agriculture among small scale farmers in Mozambique; B) a commercial farmer who has been involved in seed multiplication; C) a private entrepreneur in the agro-input business in Mozambique. All three have experiences with or knowledge about IKURU. Their stories in different ways comment upon the accounts given in the previous chapters of this report. Finally this chapter points to two potential future strategic partners to be further explored, based on the fact that a strategic partnership will be necessary for IKURU to develop as a company providing quality seed to farmers in Mozambique.

6.1 THREE STORIES – THREE PERSPECTIVES

A: Views and Experiences from the Perspective of an International Partner

According to A, to develop commercial agriculture in a way that benefits small scale farmers, it is important to have a common master plan which the different actors in the field can support. Such a master plan could also provide a basis for different actors' contributions in their specific fields of competence.⁴⁷ So far the development of the sesame value chain has e.g. taken place more in spite of than with the support of the Government. But, "the farmers were fed up with growing cotton, and turned to sesame". The problem has been to access quality seed. According to A: "Nobody is really working with seed".

What has then been IKURU's role in input provision in the sesame value chain in A's experience? Last year the sesame promoting programme in Manica Province actually bought seed from IKURU. It was an order that amounted to approximately 200.000 USD. What happened with the seed ordered was that it was first subjected to an inadequate insecticide treatment before it was loaded on a truck and sent from IKURU in Nampula to Manica Province. The conditions under which the seed was transported were also inadequate; the weather was hot and the temperature conditions under the cover at the back of the lorry were "very hot – almost boiling". After testing, the germination rate was 50%, which is unacceptable.

This is obviously the type of experience that easily undermines an input supply company's *credibility* as a quality seed provider. It can destroy part of its market, especially if the negative experience is confirmed by other buyers – at least if there are other input suppliers available. But it affects credibility not only with one client, since the actors in commercial agriculture in Mozambique are, in fact, already connected through several informal networks. In this case, IKURU's response to the complaints from the buyer was also unsatisfactory and unprofessional, and further contributed to undermine the market *relationship* with this particular client as a buyer of seed in the future. In 2011 they bought from C (see below).

According to A, a major problem in the agricultural sector in Mozambique, including Government officials, is that central actors and decision makers in no way depend on the *results*. The institutions that are built up with donor money are not result-oriented. Neither does IKURU depend on the results of the company's own business operations. The only actors in the field who depend on the results are the farmers themselves, in A's view. Small-scale farmers operate in a high risk field. But also

⁴⁷ As the interview on which this section is based was conducted before news about the PEDSA 2011-2020 was published, the contents of this Strategic Plan is not specifically mentioned by A. But it seems clear that A calls for a joint platform for future action as is now given in PEDSA (2011), cf. Ch. 1.

commercial farmers trying to live from farming in Mozambique are involved in high-risk operations – like B (see below). From A’s point of view, IKURU is a “pseudo company”, which A – representing an agency promoting the development of commercial agriculture – would be reluctant to invest in.

B: Views and Experiences of a Commercial Farmer

According to B, commercial agriculture in Mozambique is a complex field. A major problem for a commercial farmer is the interest rates in the commercial banks. “I pay 25%, in Europe you pay 3,5%. And you need viability to create a commercial base.” Another major problem is the role of Government agencies: “Government departments have a target; and they have to deliver through collecting taxes and fines. It affects everybody... except the elite.”

Concerning seeds, A says the following: “I need good quality seed for my farm. And it is a problem that there is no ethics in the seed business. Panar is now said to be selling off their excess here...” But according to B, Progene Seeds (see below) in Zimbabwe is a serious player in the field, and has the competence to produce good quality seed. It is a company that appears as both “young and dynamic”.

As a commercial farmer, B has also had a direct experience with IKURU. Around 2007 he got a contract with IKURU to multiply sesame seed. The seed multiplication went well, but IKURU did not – or could not – pay. So instead of payment he finally decided to keep part of the sesame seed as payment: “Apparently they need to get their things in order.”

From a commercial farmer’s point of view, and thinking at a more general level; what would be the criteria and conditions to partner up with a company such as IKURU, for instance in a joint venture? From B’s point of view, the following points could serve as a check-list:

- Decision-making power in a joint company is important: What would be the proportion of shares on each side? 50/50? Who has then the controlling veto in the Board?
- There should be one overall decision-maker in the management.
- The quality of management and management accountability are crucially important.
- Clear communication lines, lines of command, and management profile would have to be agreed upon.
- It has to be taken into account that a linking/partnership/joint venture would imply a re-dimensioning of personnel.
- Quality control would be essential; and there must be a clear strategy on how to identify germplasm for multiplication.
- What would be the markets for the company/joint venture? A joint venture implies sharing of markets.
- Work ethics is crucial. People working must be made and held accountable.

C: Views and Experiences of an Input Supply Entrepreneur

C is at present the owner of an agro-business and inputs company with 11 permanent employees, in addition to 40 women to clean produce at harvest time. From 75 tons in 2004, the business has grown to the production of 1.500 tons of seed in 2011. Around 80% of this is maize seed. And the business is growing.

C had his background as a professional employee in Semoc⁴⁸, where he worked from 1989 to 2002. He had to leave the company when they closed down his branch, and as compensation he requested to keep one of Semoc’s small lorries. With this lorry he worked as a trader, primarily in maize, for a couple of years. His approach in building up his company – with the help of his wife and family – has been to work on the basis of his own funds, and build up assets; never use credit!

⁴⁸ Cf. Ch. 3.3.2

In the seed business he is involved with various actors. He sees research and provision of germplasm as the role of the State, but he also sees international research centres under the CGIAR, such as IITA, ICRISAT and CIMMYT as important partners in this regard. While international companies like Panar carry out their own research and make their own seeds. C has recently been appointed President of AMPIA, the recently formed *Associação Moçambicana de Provedores de Insumos Agrícolas* – Mozambican association of agricultural input providers.⁴⁹ AMPIA has developed links the IFDC project for Agricultural Market Strengthening (AIMS II), with a project period running from 2009 to 2012, especially focusing on the Beira and Nacala corridors in Mozambique. The AIMS II project aims to improve farmers' access to inputs through the promotion of competitive markets and networks of small agro-dealers at the local level.⁵⁰ The target group of this IFDC project is very small-scale input dealers based in the local communities, and where they have to count on the trust of their co-villagers. The AIMS II project provides capacity building and networking facilitation among village-based agro-dealers to increase the quality of the inputs they provide locally. As a large-scale dealer in inputs, C has agreed to give a 10% discount to the small dealers involved in the IFDC network.

6.2 POTENTIAL STRATEGIC PARTNERS IN THE FUTURE?

According to the PEDSA 2011-2020 (see Ch. 1), the Mozambican Government, through the Ministry of Agriculture and cross-sector collaboration, aims to take a more active role in coordinating initiatives to promote agricultural development. Partnerships with CGIAR research institutions are in this context pointed out as an important mechanism to improve the services in seed provision (PEDSA 2011:61). With Norway as a major donor to CGIAR, and the Norwegian Ministry of Foreign Affairs normally represented through professionals both in CGIAR at the coordinating level and in the boards of some associated research institutes, this is a connection that IKURU's Norwegian partners are in a position to explore, taking into account IKURU's needs for strategic partnerships with institutions that are specialised in research on seeds and the provision of germplasm on a non-commercial basis.

At another level, Progene Seeds Pvt Ltd is a company that according to their website was established in Zimbabwe in 1999 to work with sourcing and development of germplasm suitable for the SADC region. Progene Seeds both breeds and supplies seed, and is working with maize, sugar beans, cowpeas, sorghum, potatoes, millet and groundnuts. All these are relevant crops, if not for the whole country, at least for specific regions in Mozambique. More recently Progene Seeds has received funding from AECF (see Ch. 4) to work with a "Sustainable seed" programme focussing on cowpea. Progene Seed's profile could also be seen as complementary to that of IKURU, and it could be worth exploring the possibilities of involving this company as a strategic partner for IKURU in the near future.⁵¹

⁴⁹ Founded in 2008, see: <http://www.flickr.com/photos/ifdcphotography/4595937840/>

⁵⁰ On the IFDC project, cf.: http://www.ifdc.org/getdoc/1eda41d6-d882-4b79-95b7-71d209d8051b/AIMS_II

⁵¹ On Progene Seeds, see websites: <http://www.progeneseceds.com/> or <http://www.aecfafrica.org/index.php/zimbabwe/76-progene-seeds-pvt-ltd>

7 CONCLUSION

The point of departure for the present study, as defined in the Terms of Reference, were assumptions such as: 1) The collaboration between Norges Vel, NFK and CLUSA to support the input unit of IKURU, had by 2011 resulted in improvements in IKURU's input business that had made the company reasonably competitive both in terms of quality and profitability; 2) That there is at present a growing number of producer organizations in Mozambique, if not yet formally organised and operating as 'modern cooperatives', at least sufficiently well organised and business oriented to form a basis for creating commercial linkages and common operating systems that can benefit both the producer organisations themselves and the members' farming practices; 3) That IKURU's small-scale farmer basis, its reputation locally and regionally as an 'honest broker' in agricultural markets, and its role as a certified provider of improved seed would have made IKURU into a relatively attractive partner, for other business-oriented actors in input supply service provision to enter into negotiations on forging e.g. a joint venture of larger-scale input supply businesses; and 4) That this is precisely the moment to scale up the input supply services at present delivered by IKURU, if not to a national level, at least to a northern-central region level, organised within the given framework of the new Cooperative Law in Mozambique. We believe the present report shows that these assumptions must be revised.

Another assumption in the ToR for the study was that IKURU represents a repository of valuable experiences and lessons learned. Though the implications drawn here are different from those suggested in the ToR, we believe that this report amply supports this assumption. We will here briefly summarise some of the lessons learned and implications to be drawn.

- When working with farmers you have to respond not only to farmers' needs, but also to how they perceive their needs. This relates both to their needs to sell their products at a good price and to the quality of marketing links, as well as to the ownership structure in a farmer owned cooperative business. This study shows quite clearly that the IKURU model is perceived and experienced as 'top-down' by farmer members. The revised and adapted model used in the establishment of ALIMI seems promising, but requires more time to be tested out. A lesson learned so far seems to be that it is necessary to build from – and with – the level of the farmer producers, and provide assistance to establish functioning units with well-defined and limited objectives in terms of commercialization of products, and with a real potential to be self-sustained on this basis.
- There *is* a role for a well-run seed company oriented towards the needs for small-scale farmers. To *be* this company, IKURU still needs to become much more serious and professional, both in the relationships with farmers and with buyers of seed – and maybe other products. A seed specialist *in* IKURU is a must in this regard, as part of an urgently needed professionalization of the company.
- Farmer owned businesses such as IKURU have – up to now – had to relate to a hostile banking sector, in the sense that it has been almost impossible to be categorised as 'bankable' by banks that operate according to commercial principles. This is a problem that goes far beyond IKURU's means and powers, and has to be addressed at various levels, including the Mozambican Government.
- Given the current situation with regard to access to finance and credit, IKURU itself needs to capitalize and create assets that can serve as collateral, in order to minimize the exposure to bank hostility. The approach followed by ALIMI, and some private actors in agro-business, has to a greater extent been to generate a source of funding controlled by themselves.
- The kind of markets where IKURU has been operating are not always operating as 'markets', in the sense that it is difficult for a commercial entity to sell commodities that are also given as gifts by other non-commercial entities. A connected problem is constituted by the blurring within

single operative units (such as IKURU) of objectives that need to be distinct, particularly those of , on the one hand, business orientation, and, on the other hand, civil society and NGO non-profit rationalities.

- IKURU is at present not in a strong bargaining position. This is one important reason why entering into a joint venture with a national business partner at present may not be the best option for the company. However, an optimal operating structure should be determined; and it may be joint venture. The decision must, however, be taken at the level of IKURU's Board and General Assembly.
- Farmers' needs and views have to be taken seriously when discussing a future ownership structure for IKURU and more specifically IKURU's input business. In this context the future role of the farmers' shares must also be addressed: should *fora* that are reorganised into, for example, new cooperatives be given the option to have their shares redeemed? If so, it is necessary to specify an option for existing farmer shareholders to buy into IKURU, which would be restructured into a joint venture(?), at a later date. For instance, such an option could be activated after a 3-year period, if that is the time required for IKURU to get on track. In this and other aspects of farmers' involvement with IKURU, the principle of 'farmers speaking with one voice' (cf. Mahoney 2011) should be open for discussion. There are several reasons why farmers should speak with many voices, reflecting the internal diversity within the group of 'small scale farmers'.
- In a reorganisation of IKURU it is also important to pay attention to how the accumulated debts of different *fora* with IKURU should be settled. In this context, the principle of *accountability* by all actors, and the need to build *trust* among actors should both be promoted in constructive ways.
- When people organise, it is with a clear purpose. The new Cooperative Law provides a well-defined legal framework for organising farmers' cooperatives – with a defined purpose. Commercialisation of products may at present be the most urgent, and the purpose towards which farmers can create reasonably well-functioning cooperatives.
- If cooperatives are organised as purely sales coops, there is also ample space and real need for (separate) farmers associations – with non-profit objectives. They no doubt have important roles to play in rural development; and at present it seems to be in particular women's organisations that are expanding their number and activities. Supporting women's associations should, however, go hand in hand with working systematically to with ensure female participation and representation at different levels of organisation when external agencies are working to support the establishment of modern producers' cooperatives.
- Support and capacity building to modern producers' coops may also include the facilitation of contacts to make possible regional networking and a more long-term forging of links between members of coops in similar situations and with similar challenges, in order to create a basis for coop members – men and women – to share experiences and learn directly from each other.
- With new cooperatives being formed, after they have consolidated their operations for a few years, there may be a real, bottom-up demand from such organised and more business-oriented farmers to become co-owners of a reorganised and well-functioning IKURU inputs company. A reorganisation of IKURU should be based on a design that opens up for such a longer-term perspective.
- Fair trade and certified organic products, on the one hand, and an inputs supply business, on the other, require different strategic partnerships, and operate in different markets. The most viable option for IKURU may therefore be to split – and then seek strategic

partnerships for each unit. It may be that the two businesses may be able to collaborate to mutual advantage (e.g. in sharing office facilities and other services), but this should only be undertaken on the basis of clearly-identified advantages for both businesses, and not on the assumption (as at present) that cross-subsidy is feasible or desirable. In financial terms, therefore, the different enterprises must be separate.

LIST OF PEOPLE MET AND CONSULTED

Mozambique: March – May 2003

Persons interviewed and meetings attended to prepare the study presented in this report are listed below in chronological order. The authors of this report highly appreciate their willingness to find time and share their views, knowledge and crucial information, which in turn made it possible for us to write the report.

Benjamin Nascimento, CLUSA, Nampula
Moises Raposo, IKURU management and Board members, Nampula
Stephen Gudz, CLUSA, Nampula
Chissungue Haje Anotónio, MIRUKU, Nampula
Kajsa Johansson, Swedish Cooperative Centre, Cuamba
Sérgio Neto Nemba – with staff, PROMER, Cuamba
Gersone David Pedro Nunes, Director Distrital de Act. Económicas, Ulongue
Stefano Gasparini, CLUSA Senior Agribusiness Adviser for Beira and Nacala Corridors, Chimoio
Øystein Botillen and Carlos Rafa Mate, Norwegian Embassy, Maputo
Emerson Zhou, BAGC secretariat, Maputo
Paulo Negrão, Chair of IKURU Board, GAPI, Maputo
Antonio Qunize Nhamaze, Coordinator, APAC
Jeff de Jong, Consultant, Maputo
Cynthia Donovan, Centro de Estudo Sócio-Económico (CESE), IIAM, Maputo
Sr Zacharias (President) and Sr Vicente (manager), Foro Netia, Monapo District, Nampula
Julio Costa, Coordinator, Agrifuturo, Nampula
Lucilio Gerson Daniel, (then)Manager, CLUSA, Gurue
Antonio Petulante, Manager, CLUSA, Cuamba
João Duarte, Head of Agricultural Services, Provincial Directorate of Agriculture, Nampula
Aly Junior, Manager, CIMPAN milling company, Nampula
Manager Gani SA trading company, Nampula
Pippi Gardner, CLUSA, Nampula
Members of Foro de Nacololo, Monapo District, Nampula, 4 May
Associação de Mulheres, Nacololo, Monapo District, Nampula, 4 May
Members of Foro de Namialo, Meconta District, Nampula, 4 May
Members of Foro de Nametil Sede, Mogovolas District, Nampula
Dr Fernando Chitio, Director, IIAM, Nampula
Sra Lourdes Cuembelo, IPEX, Nampula
Andrew Cunningham, Owner, Novos Horizontes poultry business, Rapale, Nampula
Sr Sixpence, Manager, Cister trading company, Nampula
Edson Machabana, Técnico, CLUSA, Gurué
Members of Ruace farmers association, Foro Acissa, Zambezia
Sr Ali Magido, Dept. de Insumos, IKURU
Members of Board of Directors (Concelho de Direcção) of Alimi Cooperative:
Sr Mahosha (President), Sra Maria (Secretaria Concelho Fiscal), Sr Cahisse Caleque (President do Concelho Fiscal)
Arquimedes Mahanjane, Branch Manager, Banco Terra, Nampula
Munir Alarquia, Branch Manager, Banco Terra, Nampula
Atumane Muqurissirima, MIRUKU, Nampula
Abel Lisboa, Value Chain Assistant, Agrifuturo, Nampula
Andrew Bracken, Peace Corps Volunteer, Agrifuturo, Nampula

Carlos Sanchez, Project Coordinator – SANA, CLUSA, Nampula
Luis Pereira, Technoserve (Nampula)
Martin Mason, USAID/CLUSA/IKURU, Nampula
Roberto Chipembere, SNV, Nampula
Simon Munakwame, Agricultural Program Manager, Matanuska – Meserepane farm,
Corredor Agro, Namialo, Meconta District, Nampula
Bonfácio Saulosse, Head of Nampula office of Centro de Promoção de Investimentos (CPI)
Ana Jamisse António, Head of Nampula office of Centro de Promoção de Agricultura
(CEPAGRI)
Karen Lindegard, ADIPSA, Chimoio, Manica Province
Srs Gil Mucave and Manuel Ginga, IFDC project, Chimoio, Manica
Mauricio Dengo, Dengo Comercial, Choimoio, Manica
Monty Hunter, Technical consultant and advisor (BAGC), Chimoio
Kevin Gifford, Commercial farmer, Manica Province
Sicco Kolijn, Advisor, BOM, Chimoio
Laurens Van Oeyen, SNV, Maputo
Karl Moursund, Director, Banco Terra, Maputo
José Jaime Jeje, Head of Agri-business, Banco Terra, Maputo
Wigle Vondeling, AFri-finance Specialist, Banco Terra, Maputo
Lars Ekman, Advisor, NORAD, Oslo
Andreas Bomann Larsen, Advisor, *Formuesforvaltning*, Oslo

Meetings attended:

- General Assembly, ALIMI Coop, Cuamba, 22 March
- Associação Agropecuaria Chiquirizano, Dómuè, Tete, 23 March
- Nsuzumire Association, Angonia, Tete, 23 March
- CLUSA staff meeting, chaired by Benjamin Nascimento, 2 May
- Meeting with women representing associations affiliated with farmers associations in Mogovolas District, 5 May
- União Geral de Cooperativas, Nampula: with Sr Gregorio (Presidente), Sr Elsio (Secretario), and Daniel Abaco (Coordinador)
- Dombe Farmers' Association, Board meeting, 12 May
- Meeting with staff at USAID office, Chimoio, Francisco Junior and Sr. Rocha
- Meeting, AMPCM, with María José Novoa and Antonio Armando

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ANNEX
Terms of Reference

Det Kongelige Selskap for Norges Vel

Terms of Reference:

Preparation phase – Development



Development of National Producer Organizations and Specialized Business Units in Mozambique

Summary:

The activities that are to be performed within this ToR are based on cooperation that Norges Vel, Norske Felleskjøp (NFK) and Corporate League of USA (CLUSA) initiated in Mozambique to develop cooperation between producer organizations and specialized business units in the agricultural sector. This ToR builds on the work of the partners to support the input unit of IKURU, a producer owned trading company based in Nampula and working along the Nacala Corridor. The support has focused on improving the quality and profitability of IKURU's input business.

The proposed plan will investigate the potentials and challenges involved in forging commercial linkages between the growing number of producer organizations in Mozambique. This will increase access of farmers to high quality inputs to deal with their need for improved productivity, increased variability of climate and improve marketing of outputs. Opportunities to develop common operating systems and take advantage of the new cooperative law will improve stability and efficiency of these producer organizations. This will also serve the farming community in improving their knowledge of farming practices.

Means to increasing female participation throughout all elements of producer organization membership and leadership will be addressed. Based on a model of 'public-private partnership' (PPP), the program will mobilize for a full participation between the government, civil society organizations and private sector. Strengthening farmer organizations would be the driving force for such cooperation.

The role of Norges Vel would be one of coordination and network building, in addition to supporting the task of capacity building in farmer organizations. The role of NFK is specifically directed to develop input supply services, while CLUSA will continue and expand the role developed through the support from the Norwegian Embassy of capacity building in farmer organizations and promoting value-adding in full value chain of specific products. The partners will also promote best practices among farmers as an integrated part of capacity building for farmer organizations, specifically conservation agriculture and agro-forestry.

The programme will seek alliances and cooperation with organizations knowledgeable in these technologies. In order to assist the localities, regions and the country in developing common structures of farmer organizations and services, the program will also seek alliances and cooperation with other Norwegian development and private sector efforts. These are for example the Beira-corridor initiative where different organizations, both private, NGO and public investment is being provided. It is also recognized that the program has much to learn from the PPPs supported by Norad in Malawi and Tanzania. It will also be important to communicate with COMESA that have been instrumental in supporting the transformation of farming practices in Zambia. This effort of conservation farming could be of great benefit to the regions north of Nampula; Cabo Delgado and Niassa and the 4 regions south of Nampula that constitute the main target area for the Beira corridor investments; Tete, Sofala, Zambezia and Manica.

Background:

Norges Vel, NFK and CLUSA have been collaborating since 2007 in the strengthening of the producer organization IKURU, a producer owned trading company in Northern Mozambique. The partners

have worked with IKURU to develop profitable input services which can increase productivity, market access and profitability of farmers.

Lack of quality inputs remains a significant constraint for farmer profitability. Mozambican farmers remain caught in a cycle of poor inputs, low productivity and reduced profitability. Today, less than 2 percent of farmers in the country use improved seeds. This has a dramatic effect on farmer productivity and long term ability to grow beyond basic subsistence. The partners have worked with IKURU to multiply improved varieties of seed through its network of certified seed producers and market seed and other inputs. These inputs are increasingly important in a period of climatic change with increased variability of rainfall and temperature. IKURU is marketing drought resistant crops, such as groundnuts, sesame and improved varieties of other crops, such as shorter cycle maize.

The input support activities at IKURU have achieved positive results for the company and clients, particularly in the expansion of certified seed production. However, the organizational capacity and structure of IKURU, consisting of 29 farmer organizations, a development finance company (GAPI), and a donor (NOVIB), presents limitations for future growth of the input unit.

While IKURU is poised for future growth with necessary organizational fortification, there are also other groups of farmers in Mozambique who are interested in creating some form of producer owned trading company. Most of these organizations are also interested in either supplying inputs to IKURU's input unit on contract, purchasing improved inputs from IKURU, and/or being linked to other of IKURU's business activities, such as trading of certified commodities to Europe. It would be inefficient for multiple producer organizations to create their own certified seed production units, for example, given high costs and level of expertise. Rather organizations should look at opportunities for greater collaboration and development of common systems.

The evolving legal environment, particularly the new cooperative law, presents new opportunities for creating economic collaboration between producers to create coops and link these cooperatives together and to other private enterprises. The previous cooperative law was outdated and obliged strong linkages between cooperatives and government. Furthermore, there was a negative view of associations and cooperatives because of past experiences under the socialist framework.

The environment for creation of farmer cooperatives is improving, however. The Mozambican Association for Promotion of Modern Cooperative Development (AMPCM),⁵² of which CLUSA is a member, has focused efforts on promoting a more conducive environment for cooperative development through legal reform and public education. This resulted in the changes in the country's association law in 2006 and culminated in 2009 with the drafting and unanimous approval of a new modern and progressive cooperative law passed by Parliament. This enables farmer owned and controlled cooperatives, not hampered by the former state or party control.

Furthermore, with rising global commodity prices, buyers are increasingly looking at how to create more efficient linkages to suppliers. By joining forces, farmers can improve their negotiating power and increase access to inputs and other services in addition to achieving better/more reliable commodity prices.

⁵² The Associação Moçambicana para Promoção de Cooperativismo Moderno is a emerging member network of 12 institutions promoting cooperative development in various sectors, including agriculture. While the association was formally registered in 2010, the partners have been working together for 5 years on promoting a positive operating environment for associations and cooperatives.

There are a growing number of producer organizations throughout Mozambique. While there are benefits of promoting these farmer organizations, there are many common challenges, such as those experienced by IKURU. Internal weaknesses include need for efficient and user friendly accounting systems, auditing, access to skilled management, and marketing capacity to trade in a dynamic global marketplace, a lack of collateral has limited access of producer organizations to financial services.

These emerging producer organizations and linkages created between these companies present the opportunity to improve livelihoods, including the status of women in the rural areas. While producer organizations in Mozambique, including IKURU, have a great deal of women members, there is still a challenge in facilitating women participation in decision making bodies. Constraints to their greater participation include lack of land tenure, conflicts with household tasks, low levels of agricultural productivity, lack of access to credit and a high rate of illiteracy.

The partners Norges Vel, NFK and CLUSA plan to partner with a Mozambican women's organization with special competence to increase the actual participation and integration of women in cooperative organizations. A pre-study will be done in the 1st quarter of 2011. The findings will be available for this proposed program. With an initial plan formulation available before the start up of the program, we should be able to establish long term working methods for a general improved integration of women in the agricultural sector in Mozambique.

Developmental goals:

The partners, NV, NFK and CLUSA, look for ways to facilitate strengthening of various regional farmer cooperatives by linking them together on a national level to address common constraints, opportunities, and develop common operating systems. This would enable development of local, regional and national farmer organizations which could create specialized agribusinesses and services (such as production of improved inputs). Creating linkages between farmer organizations, with a focus on emphasizing involvement of women and sustainable production practices would lead to greater farmer income through improved quantity, quality and value added of agricultural production. Focus would be given to the existing and or incipient farmer organizations in Nampula, Cabo Delgado, Niassa, Zambezia, Manica, and Tete Provinces. This includes the areas that would also benefit from the planned infrastructure investment through the Beira Agricultural Growth Corridor (BAGC) initiative.

Scope of work:

Describe the Ikuru experience and other similar organizations that have been able to expand farmer cooperatives on a regional level, and assess how this could be scaled up and come together at a national/Northern Mozambique level.

To what extent can we expect that this will bring increased income, competence and market access?

Review to what extent the partnership can strengthen business orientation, including improving access to financial management, auditing services, human resource management and other systems and services targeting the farmer organizations.

Look at how more coordinated efforts can improve the democratic fabric of the cooperatives including the involvement of women in producer organization leadership

What technologies currently offer evidence of clear productivity gains (qualitative or quantitative) for small-scale farmers in northern Mozambique?

What technologies could be offered to farmers via cooperative organizations at prices that would provide reliable improvements in financial returns /income for small-scale producers?

Assess the needs in terms of specialized agribusiness companies, trading companies, specialized processing companies, seed companies or others as required either on regional or national levels.

What are the expected investment needs to assure their efficiency?

Analyze how an increase in local input production and sourcing of high quality inputs can take place.

Assess different stakeholders' views on the effects of increasing access to these inputs by multiple producer organizations, such as increasing farmer yields and their ability to deal with variable rainfall and temperature conditions.

Review the conservation farming experiences of Malawi and Zambia and assess the potentials for creating a south-south learning platform suitable for Mozambique.

Assess if and how internal collection of information about climate changes and mitigation measures can be integrated into the activities of the network organization, on the basis that this is needed to assure that Mozambican agriculture is profitable and part of the future green economy.

Assess and prepare partnerships and collect knowledge of funding mechanisms supporting the important infrastructure challenges that are important for farmers' ability to produce and access markets.

Strengths of partners:

The supported activities will build on the existing partnership between Norges Vel, NFK, CLUSA and other partners, including these main areas of focus. Additional information on these partners is provided in Annex 2.

Main Outputs and Objectives:

The *first phase* would be an initial exploratory, development and study phase of 6 months to be done 2nd and 3rd quarter 2011. The *second phase* envisioned would be five to ten years and focus on strengthening of various regional farmer cooperatives by linking them together on a national level.

The broad timeline for *first phase* activities include:

- Identification of stakeholders
- Conducting of initial meetings with stakeholders, including producer organizations, financial institutions, key farmer support organizations and government officials.
- Validation and mapping of interested farmers and farmer cooperatives.
- Designing and discussing with stakeholders alternative models for regional and national cooperative integration, including review of options for creating agribusiness companies.
- Gather market information on current and future production potential, production quantities and qualities by region (conventional, fair trade, organic, seed, HACCP⁵³ requirements).
- Review available information on food imports to Mozambique and evaluate the potential for efficient production of these commodities. What type of input support/seed production will this demand and how can available information on soil, rainfall, production capacity etc. be gathered to establish a vision of a food secure Mozambique. (The CLUSA/FK soya introduction to Mozambique can be a model)
- Review of common systems which would be advantageous to develop for benefit of multiple producer organizations.
- Identify synergies that will benefit small and emerging farmers.
- Estimate potential of fair trade and organic production and export capacity.
- Give a description of how conservation farming today is done, perceived and its potential in Mozambique based on regional experience compared to the production techniques now being used.

⁵³ Hazard analysis critical control points – International approach to limit hazard and address food safety before export or local further processing

- Interview organizations working in forestry to see how the combination of farming, small scale forestry, tree-planting on farms can supplement income or increase production of crops or contribute to CO2 foot print reduction.
- Identify the products and services that a commercial company owned by the farmers should venture into supporting sustainable growth and agricultural development.
- Review opportunities for linking organizations together – both private and public.
- Discuss possible role distribution of stakeholders and partners.
- Estimate investment needs and plans for implementation of the *second phase*.
- Discuss roles and responsibilities
- Propose a monitoring system based on risk evaluation and partners available in Mozambique – national and international long term agricultural organizations.
- List of possible funding sources for the 5-10 year development plan.

The *second phase* will focus on developing common operating systems to help strengthen producer organizations and creating linkages between these organizations. This phase is expected to last from 5 to 10 years.

It is important for the private sector and farming community to work together with the official public institutions responsible for seed policy and certification. A strong national cooperative structure with production capacity and sufficient knowledge to assume this responsibility will strengthen Mozambique's ability to assure its food needs and rural income. Such a Private Public Partnership (PPP) needs to be built with a long term focus.

The new law regulating cooperatives is a valuable contribution assuring the needed framework to develop farmer ownership and improved market access.

The study should result in an action plan for activities and goals for the next phase 2012–17 and a vision for the state of affairs in 10 years.

Key stakeholders:

There are several stakeholders that will be involved in the initial stakeholder meetings as well as consultations throughout the *first phase*. These include:

- IKURU (approx. 20.000 member/owners) is comprised of producers along the Nacala Corridor. Alimi (220 member/owners) is comprised of farmers in six districts of southern Niassa. There are six farmer forums in Gurue, comprised of approximately 4,000 members producing maize and soybean. There are three linked associations in Angonia, Tete province with approximately 2,000 members producing maize and soybean.
- Producer organizations
- Associação Moçambicana para Promoção de Cooperativismo Moderno - The organization represents a diverse group of cooperatives in Mozambique dedicated to improving the operating environment for cooperatives.
- APAC – Local organization which supports farmer organization development in Mozambique.
- UNAC – National Farmer association which represents farmers in all provinces of Mozambique for lobbying efforts and improves opportunities for farmers.
- Norwegian Embassy in Mozambique – supporter of gender initiatives in Mozambique, including efforts to support soybean production and utilization managed by CLUSA.
- AGRA (Alliance for the Green Revolution in Africa) - Donor interested in supporting producer organization development.
- GAPI – Development finance institution which is shareholder in IKURU.
- NOVIB - Dutch development organization which is shareholder in IKURU.

- Private companies - Could be possible co-investors with producer organizations in specialized agribusiness companies.
- Banco Terra – Financial institution which has lent to producer organizations
- Government officials – Would include representatives from Ministry of Agriculture, Ministry of Trade and Commerce as well as other representatives.
- Beira Agriculture Growth Corridor – group of public and private stakeholders looking at opportunities to develop agribusiness opportunities along the Beira Corridor.
- Norwegian Peoples Aid – active in Cabo Delgado, Tete and Naissa with community development
- Swedish Cooperative Centre (SCC) – active with district development programs in Niassa – in particular within the forestry sector.

Annex 1: Overview of Possible Approach

