

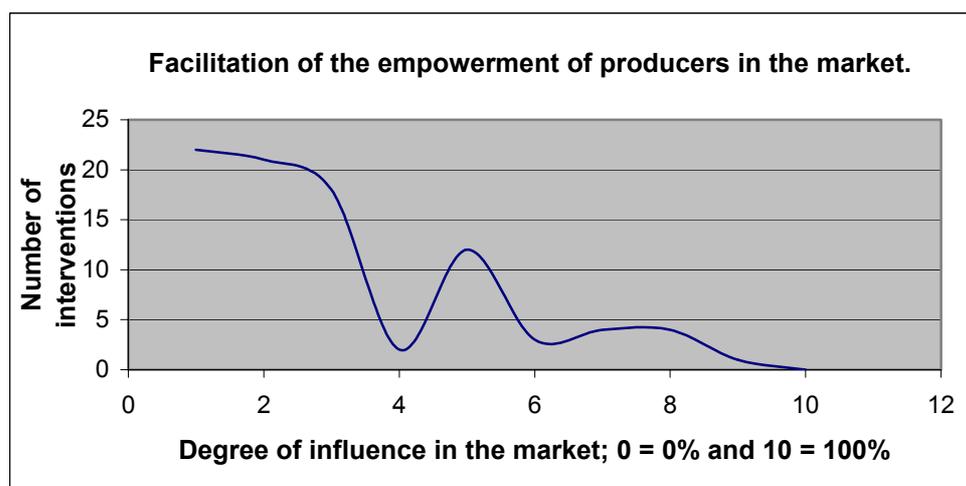
## EXECUTIVE SUMMARY

### Background

In May 2001, three rural organizations, the National Farmers Union or “União Nacional de Camponeses” (UNAC), the “Associação Rural de Ajuda Mútua” (ORAM) and Agrarius, with technical assistance from Rabo Bank International Advisory Services (RIAS) formulated a “*Strategy for the development of commercialisation structure for the agricultural sector and rural banking system in Mozambique*”. The essence of the presented strategy is the development of transaction based sustainable legal entities. With respect to commercialisation, it is proposed to create two tier co-operative enterprises. With respect to rural finance, it is proposed that a co-operative rural bank be created that over time will have national coverage. The present study was funded in the end of 2003, and in early 2004 a consortium Gapi – RIAS was created with means to formulate a business plan and to execute an implementation plan for a rural bank.

### An inventory of the situation with respect to commercialisation at the district level in the central region of Mozambique

An inventory was made in 15 districts with agricultural potential (9 in Zambézia, 4 in Manica and 2 in Sofala) to describe activities in terms of commercialisation, entities involved and opinions of producers. 87 stakeholders were identified and interviewed. The different stakeholders were classified on a scale of 1 to 10, depending on the contribution they make to the empowerment of the producers in the market.



In the figure above the market interventions are shown for varying levels of influence that the producers had in the market. Level one represents the situation where the producer has to sell his or her produce against the imposed price by the buyer. Level 10 represents the situation where the existence of producers controlled transaction channels and prices can be negotiated and influenced for the benefit of farmers. The figure shows that the majority of the market interventions are actually taking place at levels 1, 2 and 3 where producers are not able to influence prices. This results in the farmers being unable to increase the added value of their products for their benefit and consequently does not enable them to reduce the poverty wherein they live.

There do exist various intermediate organizations, which facilitate the market access of the producers (levels 4 to 7). However, they have not been able to significantly influence the setting of produce prices so as to benefit the farmers. The farmers interviewed in the Sussendenga District

clearly identified the main problem in the agricultural sector in Mozambique as being the creation of sustainable supply chains owned and controlled by farmers. They stated that this problem still exists today and is unresolved in spite of the existence of many implemented projects. The farmers felt that they have not yet reaped the benefits of a free market economy. They referred frequently to the structures that in the past provided market stability and to institutions that supported agricultural activities. These included “Grémio” in the central region and in other parts of the country “o instituto” referring to ICM, institutions which nowadays do not exist. During the various meetings the producers expressed their concern with the “anarchy” during the commercialisation seasons. This discontent with the present market structures makes all the more urgent the establishment of commercial co-operatives operated by the producers. These hold the promise of providing the farmers with control of sustainable supply chains and the increased pricing stability that they desire in a free market economy.

### **Development of the institutional frame work of co-operative enterprises for the commercialisation of agricultural produce**

A strategy was developed, which identifies three different types of institutions to be created by farmers to eliminate poverty:

1. Membership organisations to defend interests (identity and rights) of the members.
2. Commercial institutions to guarantee market access.
3. Financial institutions to guarantee access to credit and savings.

The successful implementation of these institutions also requires a supportive legal and politically enabling environment where the government pro-actively works to benefit the farmers. Proposals are made for capitalization systems (“zero-loss” policy), governance (proportional voting system) and communication (transparency for the members). These basic principles for the creation of modern co-operative enterprises (first and second tier) will reduce risks and maximize the benefits of the members. To operationalise this strategy, the actual law that will approve the code for the co-operatives was analysed.<sup>1</sup> Following this analysis, a meeting was conducted with members of the Committee for legal aspects and human rights of the National Parliament to discuss proposals to amend the law. A version of the law with proposals for changes was produced (see Volume II). For the initial two co-operatives, legal statutes that are compatible with the present law were designed while a framework of the future statutes (after changing the law) were also developed. The next steps would be to petition the parliament to actively consider and move forward on these recommendations.

### **Presentation of the business plans**

Fieldwork studies were carried out in various geographical areas in Mozambique utilizing modern business criteria that would promote economic success for local farmers. These studies resulted in the identifying of viable opportunities that are set forth in the next table:

---

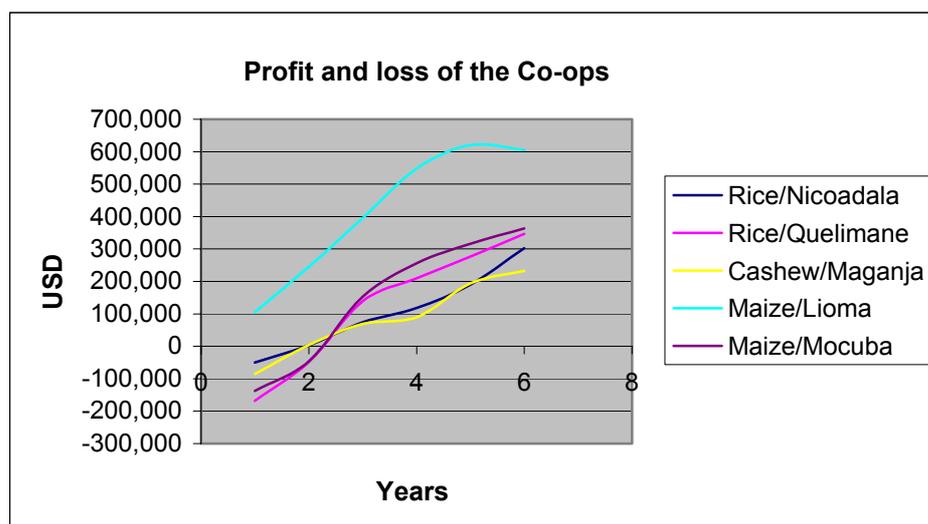
<sup>1</sup> Based on the principles of the International Cooperative Alliance (ACI), cooperatives are considered to be political instruments that support the Government in reaching macro-economic and social objectives. However, this is not in accordance with the objectives and principles of the cooperative societies proposed in this study.

	Crops	One - Tier Co-Op	One - Tier Co-Op
1	Rice	Nicoadala/Namacurra	Quelimane /ICM
		Maganja da Costa	
		Mopeia	
2	Maize and Beans	Gondola	Chimoio/Grémio
		Gorongosa	
		Sussendenga	
3	Cashew	Cariua	Mucubela - Maganja da Costa
		Bajone/Naico	
		Missale	
		Mucubela	
4	Maize and Beans	Gurué/Lioma	Mocuba
		Alto Molócuè/Nauela	

The following table gives a summary of the needs in terms of capital for the investment and functioning of the proposed co-operative enterprises:

Capital Needed	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	TOTAL	%
Credit for investment	299.600	3.872.100	874.000	236.600	74.700	5.000	0	5.362.000	37
Donation	570.000	2.410.000	250.000	0	0	0	0	3.230.000	22
Credit for functioning	470.588	1.946.524	1.165.775	1.155.080	946.524	347.594	53.476	6.085.561	41
<b>Total</b>	<b>1.340.188</b>	<b>8.228.624</b>	<b>2.289.775</b>	<b>1.391.680</b>	<b>1.021.224</b>	<b>352.594</b>	<b>53.476</b>	<b>14.677.561</b>	<b>100</b>

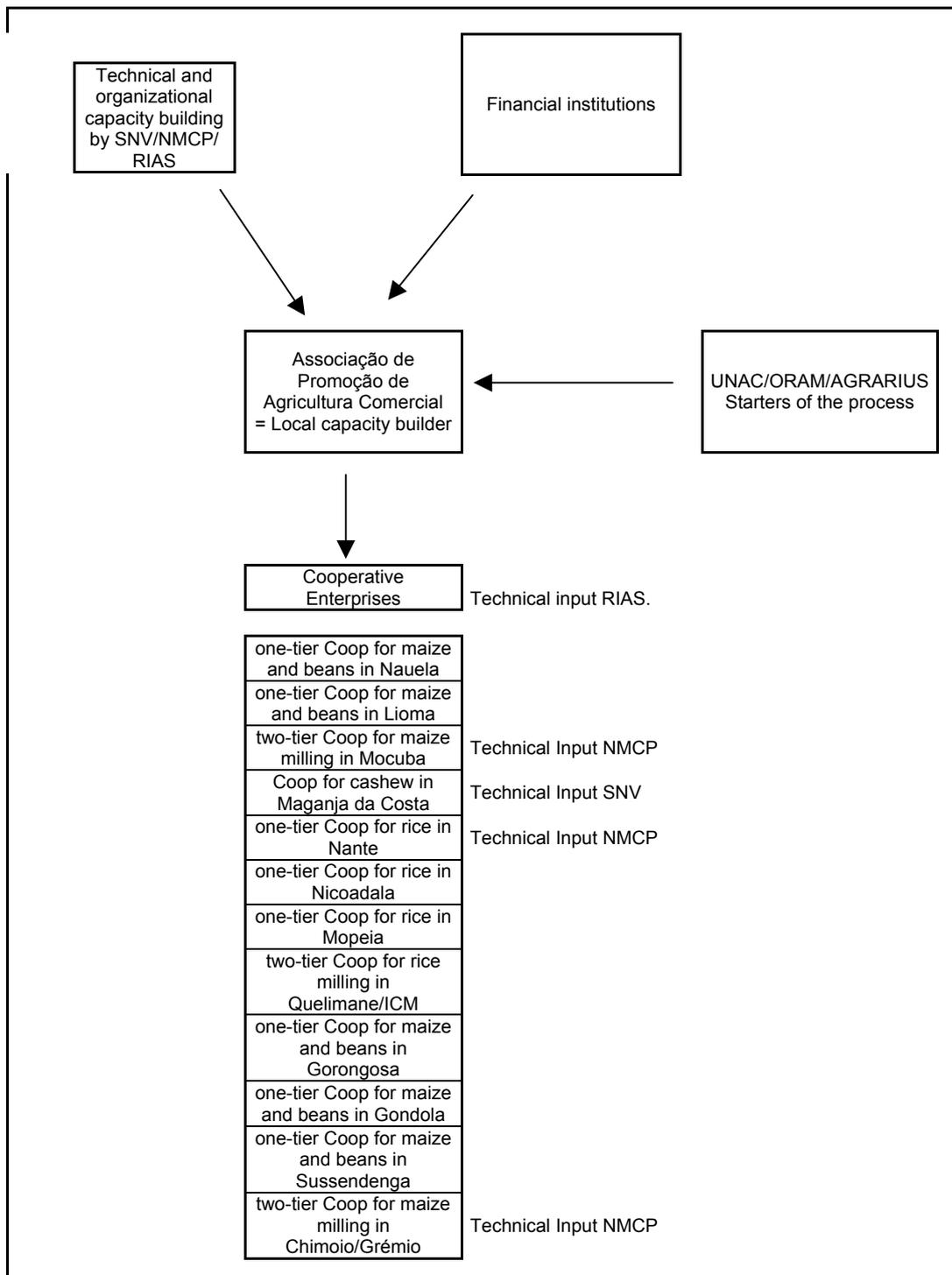
An interest rate for the investment in foreign currency of 8% was considered, while for season credit 18% was used. The figure below shows the projected profits and losses of the different co-ops:



Due to start-up in costs, as in typical businesses, almost all Co-ops will have losses during the first years. However, they become profitable shortly thereafter.

## Implementation plan

This study includes a five-year implementation plan. To implement this plan, a facilitating organization, “Associação de Promoção de Agricultura Comercial”(APAC), was founded which will have the responsibility for the installation and capacity building of the new co-ops. This new entity will link the future co-ops to the various partners in their development path. Methods for linking of relationships between the different partners are shown below:



To ensure the success of the farmer co-operatives, activities in the field of promotion, investigation, advocacy and capacity building are foreseen. The capacity building focuses on the work and responsibilities of each member of the co-operative: the local farmers, the elected members in the boards and supervisory committees and for the management. The report presents these activities for both one-tier and two-tier co-operatives. A detailed time line is also presented of the steps necessary to secure a sound implementation of successful commercial co-operatives that will benefit the farmers of Mozambique.

Maputo, February 2005