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Role of State in Agriculture



In 2014 SPEED produced a report on The State's Engagement Business in Mozambique

Key highlights

- General consensus in Mozambique about the need of the State's engagement in business: create an enabling environment
- Concern from the private sector that there is no clear vision of what that engagement should look like.
- The emergence of a new form of state engagement in business: it is not clear whether the state is setting up a new public enterprise or publicly owned enterprise or whether it is participating in a private company
- Case of EMATUM was a concern stressed by various stakeholders
- State is pursuing a dual strategy:
 - Number of SOEs managed by IGEPE has decreased (279 SOEs in 2001 to 118 in 2013)
 - IGEPE is planning to continue to reduce its portfolio and only maintain state ownership of profitable companies
- Natural resource sector is expanding in Mozambique: need for clarity and transparency in role of ENH (ENHL, CMH and CMG)
- Need for a strategic plan guiding the State's engagement in business in order to create greater transparency, accountability and alignment with national development strategy (long-term vision)

Recommendations

Develop a Proposal to Establish a State Ownership Policy

Conduct a review of government's engagement in agriculture

Study the roles and responsibilities of actors in the natural resource sector

Investigate public procurement practices in the natural resource sector

The study: Role of State in Agriculture

Based on recommendation from
**The State's Engagement
Business in Mozambique**



*Conduct a review of
government's engagement
in agriculture*



**Concerns expressed by
certain private sector players**



Case: Rice processing in Chokwe

Mozfoods invested \$20 million to establish a rice processing plant in Chokwe. The company estimated that 5000-6000 ha of cultivated rice would produce enough input for the plant to operate at full capacity. Mozfoods was faced with several challenges to meet its need for input

Mozambican government signed a \$60 million loan agreement with a Chinese bank to develop the Chokwe Agri-Processing Complex to process, conserve and store agricultural products. The plans include the establishment of a new rice processing plant as well as rehabilitating the irrigation system

Following the challenges in securing input for the rice processing plant, and the difficulties in competing with imported rice,
Mozfoods decided to pull out of Chokwe

History of state involvement in Agriculture in Mozambique



After its independence in 1975, Mozambique adopted a Marxist-Leninist system characterized by rural socialism with very little support to agriculture

1980's: as war with RENAMO intensifies the government resorts to more repressive measures including a return to forced cultivation of crops

1983: after the Fourth Party Congress, government changes direction and shifts towards peasant farmers (dismantles large farms and redistributes land to peasant and private farmers)

1987: Mozambique adopts IMF-sponsored structural adjustment program which brought in international capital, private capital and large capitalist farmers. Large concessions were granted to Lonhoro, Joao Ferreira dos Santos and large-scale private farmers (mostly from South Africa)

1976-77: Government adopted a policy of collectivism (state farms) and communal villages. DINOPROC created to manage state farms and cooperatives

1981-1983: country produces it's first 10-year plan (Prospective Indicative Plan – PPI)

1983: government enforces Operation Production, a program of forced removal of urban unemployment

1990's: mass privatization of about 1,400 SOEs and creation of several agriculture companies and institutes: IAM, ICM, SEMOC



Current GoM agriculture strategy, plans and policy statements

Article 103 of the Constitution of the Republic of Mozambique: (1) “In the Republic of Mozambique agriculture shall be the basis of national development” and (2) “the State shall guarantee and promote rural development to satisfy the growing and multifaceted needs of the people and national socio-economic progress”.

	Excerpts	Interpretation
PQG 2015-2019	<i>“Aumentar a produção e produtividade em todos os sectores com ênfase na agricultura...desenvolvimento e expansão de infra-estruturas de suporte à produção e ao aumento da competitividade...Promover a agricultura comercial e aumentar a disponibilidade de alimentos para garantir a segurança alimentar e nutricional”</i>	Emphasis on increasing production, productivity and competitiveness. Infrastructure is key theme
PEDSA	<i>“... VISION of the PEDSA is that of an integrated, prosperous, competitive and sustainable agriculture sector...Increase investment in agriculture through developing an attractive and stable policy environment...The role of the public sector will be to create favorable conditions for the producers to be able to carry out their activities in a competitive...climate that will attract the private sector to produce...”</i>	Clearly indicates role of public sector as an enabler for the private sector
PNISA	<i>“...the public sector ensures the transparent functioning of rural markets through the provision of information on opportunities and quality standards; establishes policies that encourage the development of markets for products with a high commercial value; and strengthens the functioning of markets for tradable inputs...the public sector to create a suitable business environment and to mobilize financial resources and subsidies...by establishing service centers initially developed and operated by the state through Public Private Partnerships (PPP)...the area of infrastructure will focus on public investment in post-harvest infrastructure”</i>	Clearly states role of public sector as a creator of an enabling business environment. Refers to transfer of public operations to the private sector through PPPs. Focus on post-harvest infra-structure
Estratégia Revolução Verde	<i>Os programas de interesse público com potencial para gerar negócios (por exemplo sistemas de irrigação, implementados através de parcerias público privadas, infra-estruturas de selecção e conservação da produção, silos, etc.) serão.</i>	Highlights role of PPPs in supporting infra-structure investments

Current government agriculture operations/assets

Storage



- ICM's warehouses transferred to BMM; 23 legacy ICM sites and 9 new warehouses funded by Spain (70,000 ton capacity across 6 provinces)
- STEMA (Silos e Terminal Graneleiro da Matola S.A) was established in 1996 as a measure to increase food security in the country; fully government-owned; professionally managed; one of Mozambique's most profitable SOEs; looking to expand

Processing

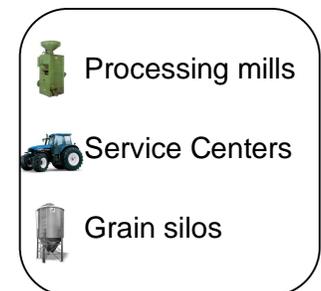
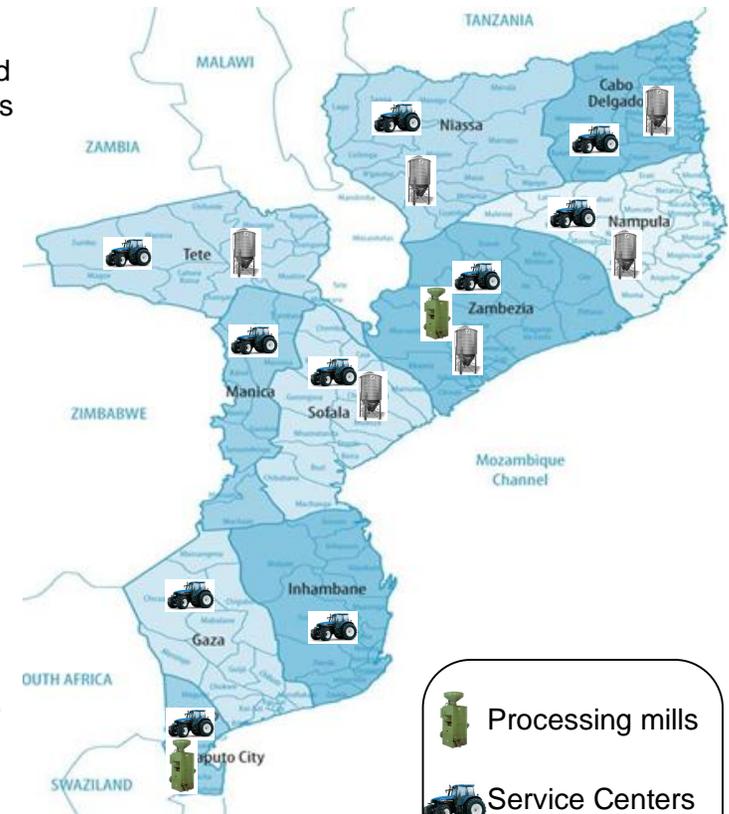


- ICM maize mill in Angonia
- GAPI rice mill in Nicoadale (in receivership due to fraud. TBC)
- ICM rice mill in Namacurra (shut down. TBC)
- ICM + Olam cotton gin in Morumbala
- Xinavane Sugar mill: 12% government stake (IGEPE 2014)

Mechanization



- New government mechanization program: Brazilian funding; 47 service centers across all 10 provinces; tractor and implement rental and lease; input shops and extension service; tractor maintenance and spare parts
- Service centers will be managed by private players
- FDA offers tractor operator training
- Tractor lease financial terms:
 - 5% lessor contribution
 - 10 year lease contract
 - 5% annual interest
 - 1 year grace period
 - Leased equipment as collateral



Role of state in Agriculture: a selection of theories

	Market failure theory	Embedded market theory
Overview 	<ul style="list-style-type: none"> - If markets are to function properly, state intervention must be restricted to cases of market failure - Policy prescriptions include increasing investment in infrastructure, legal and market institutions and agricultural support organizations 	<ul style="list-style-type: none"> - Providing public goods and addressing markets is <u>not</u> enough. States need to play a coordination role in the market - States should address issues of risk insurance, social capital building, intermediation and coordination between market parties
Positive 	<ul style="list-style-type: none"> - Provision of crucial goods that private sector is unable to provide - Creates enabling environment while minimizing distortions - Investment coordination to explore synergies 	<ul style="list-style-type: none"> - Addresses issues related to insufficient information, high search costs and physical barriers to access - Strengthens transmission mechanisms linking agricultural productivity with poverty reduction - Addresses (to a certain extent) the issue of exclusion
Negative 	<ul style="list-style-type: none"> - Correcting market failures through public goods does not address coordination problem - Reducing rent-seeking by excluding the state from many areas also left the agricultural sector with too little market coordination overall 	<ul style="list-style-type: none"> - Market coordination by the state is costly and distortive - No clear definition of level of intervention - In LDCs, the state is not the best institution to ensure market coordination due to institutional weakness

Approach to role of state in agriculture in developing economies

Interventionist role

Immediate post-independence period

Promotion of agricultural and rural development as the cornerstone of development policy

Private sector too weak or too poorly motivated to act in the national interest

State had a clear role in correcting market failure in the interests of development

1950s-1980s

Criticism

Capture by politicians, officials and rich farmers

Parastatals tended to become inefficient, ineffective and corrupt

The allocation of subsidies distorted markets and high resource cost

Anti-competitive and oligopolistic structures crowded out private sector and drained public resources

“Light touch” (Liberalization)

Policy situation of 80s became indefensible and unsustainable

Promotion of privatization or dismantling of agricultural marketing parastatals

Deregulation of markets (elimination of price controls)

Elimination of credit, input and output subsidies

1980s-1990s

Criticism

Agriculture sector showed low rates of growth during the 1980s and 1990s (negative growth rates are recorded for ‘value added’ per capita over most of the period)

Liberalization has not delivered the substantial agricultural growth needed to drive rural poverty reduction and improve food security

Despite the benefits a few exceptions there has been a notable lack of success in developing input, output and financial markets

Mixed systems

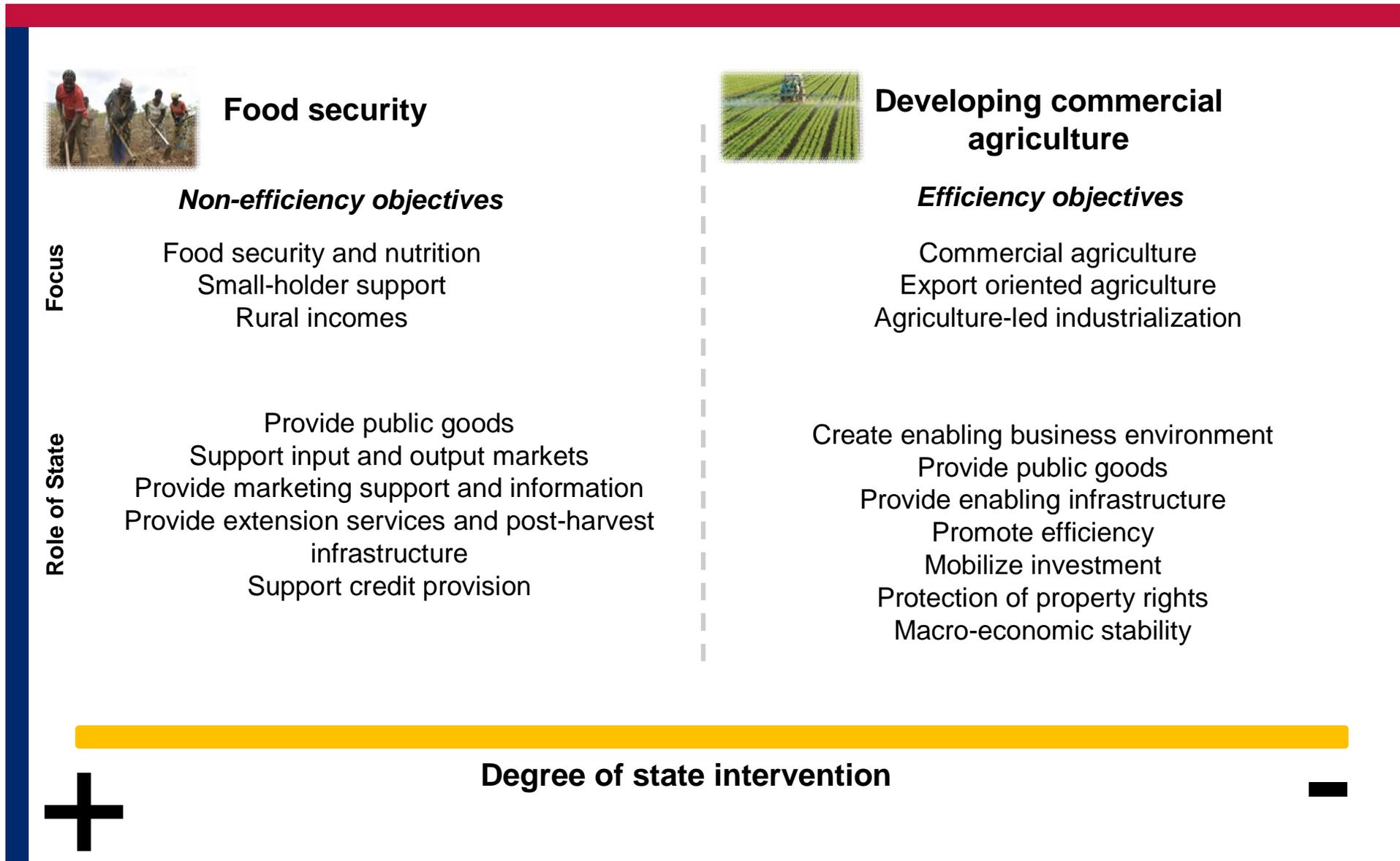
Different countries present different levels of state involvement in agriculture

No conclusion as to what the optimum level should be

1990s-2000s

**There is no
“best model”**

Mozambique: Two agendas requiring different levels/types of Government intervention



The End



“In agriculture, we are banking on increasing production and productivity, so as to create greater competitiveness and more jobs” President Filipe Nyusi, July 20th 2015