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Private Investment in the Agriculture Sector in Mozambique

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Mozambique Trade and
Investment Project

Purpose of the Study

- Background paper for Public Expenditure Review on the Agriculture Sector
- Objectives:
 - Examine quality of data on private investment in agriculture
 - Identify major constraints to private investment in agriculture
 - Assess implications for public expenditure management to accelerate agricultural development
- Private investment =
 - Foreign direct investment
 - Commercial investment by national enterprises
 - Investment by small-scale family farms

Methodology

- **Review of background literature**
 - Investment climate in Mozambique
 - Determinants of investment in agriculture in developing countries
- **Assessment of available data on private investment in agriculture in Mozambique**
- **Interviews with experts and practitioners in Mozambique**

(Note: The budget for this paper precluded deeper field work)

Key characteristics of agriculture in Mozambique

- 7.7% average growth rate, last five years
- Share of GDP = 25% (2006)
- Share of export earnings = 11% (2007)
- About 2/3rds of the population live in rural areas, nearly all of them earning livelihoods from agriculture
- 55% of rural households (2002/03) live in absolute poverty
- Agriculture accounts for nearly 4/5ths of total employment
- 99.5% of agricultural enterprises are small family farms, producing traditional crops with traditional cultivation techniques

High Potential for Agriculture in Mozambique

- Abundant endowment of land, water, and sun
- Variety of climatic zones
- Advantageous location relative to regional markets and sea routes to Asia and Europe
- Low-cost labor

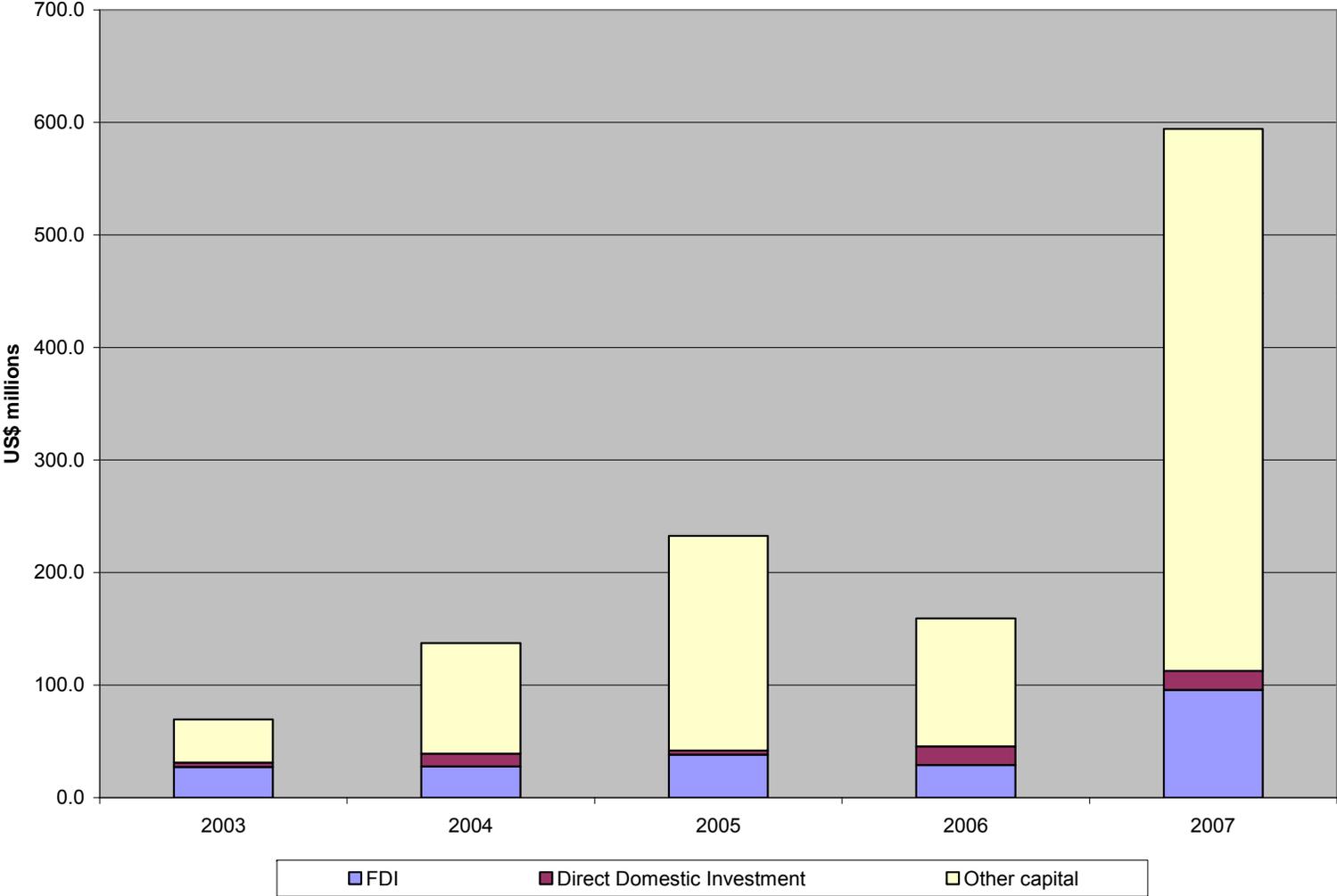
→ Agriculture has huge potential as a magnet for foreign and domestic investment

If there is a favorable environment for doing business

Data on Private Investment in Agriculture

- Six major sources of data on private investment
 - Investment projects approved by CPI
 - BdM data on foreign investment inflows
 - Commercial bank lending for investment in agriculture
 - INE estimates of private investment in the national accounts
 - INE enterprise surveys
 - Ministry of Agriculture Annual surveys (TIA)
- Main finding – *No accurate data is available on...*
 - Levels and trends in private investment in agriculture
 - Investment patterns by sub-sector, crop, or type of capital formation
 - Investment by small family farms

Example – CPI Authorized Investments in Agriculture



Data Issues - CPI

- CPI produces detailed investment data by location, source of funds (FDI, domestic investment, supplementary capital), country of origin (for FDI), and expected employment
- But, problems with the data
 - Authorized investments \neq realized investments
 - Authorized in 2007 \neq implemented in 2007
 - Broad sector categories only
 - Agriculture and agro-industry, including forestry
 - Aquaculture and fisheries
 - No breakdown by sub-sector or product
 - Small investments excluded

Data issues – BdM

- Foreign capital flows
 - FDI only
 - High level of aggregation – no details by subsector or crop
- Commercial bank lending to agriculture
 - Data only covers bank-financed investments
 - Enterprise surveys show most investments not bank financed
 - Sector classification problematic
 - Loans to “agriculture” often used for related activities
- FDI + investment lending to agriculture sum to just 3.5% of GDP in the sector
 - Far too small an amount to account for observed growth
- Again, no coverage of investment on small family farms

Data issues - other

- **INE National Accounts**
 - Private investment data mainly from capital goods imports and construction
 - No breakdown by sector of destination or end use
- **INE Enterprise Surveys**
 - Inquérito Annual às Empresas (IAE) – very low response rate
 - 2008 expanded Enterprise Survey is to cover 100% registered enterprises & sample of smaller firms in municipalities:
 - Should produce best data yet on large enterprises, but not small and medium agricultural producers
- **MinAg surveys**
 - TIA has excellent data on small and medium scale farming
 - But no tabulations done for investment
 - CAP 2009-10 is great opportunity for baseline investment data

Recommendations to improve the data

- CPI – Tabulate sub-sector detail, and provide public information on post-approval survey findings
- BdM – Modify forms and data systems to obtain more detail on sectors and sub-sectors
- INE – Develop systems for obtaining investment data from tax returns, and modify investment module in IAE to provide data by type of capital formation
- MinAg – Produce regular TIA reports on investment, and use careful investment module for CAP 2009-10

Private Investment in Agriculture

- Private investment is motivated by *expected returns* relative to *perceived risks*
- Risks and returns are determined by market conditions & public sector policies and programs
- *Efficiency* of investment just as important as the *amount* of investment, for driving growth
 - Policies that foster inefficient investment (via subsidies or protection) can work against the goal of development *even if they elicit an investment response*

Barriers to Private Investment in Agriculture

- Many studies have scrutinized barriers to private investment in Mozambique...
- ...But few cover investment *in agriculture*
- Principal constraints to *rural investment* can be quite different from those affecting urban enterprises

Three Central Constraints

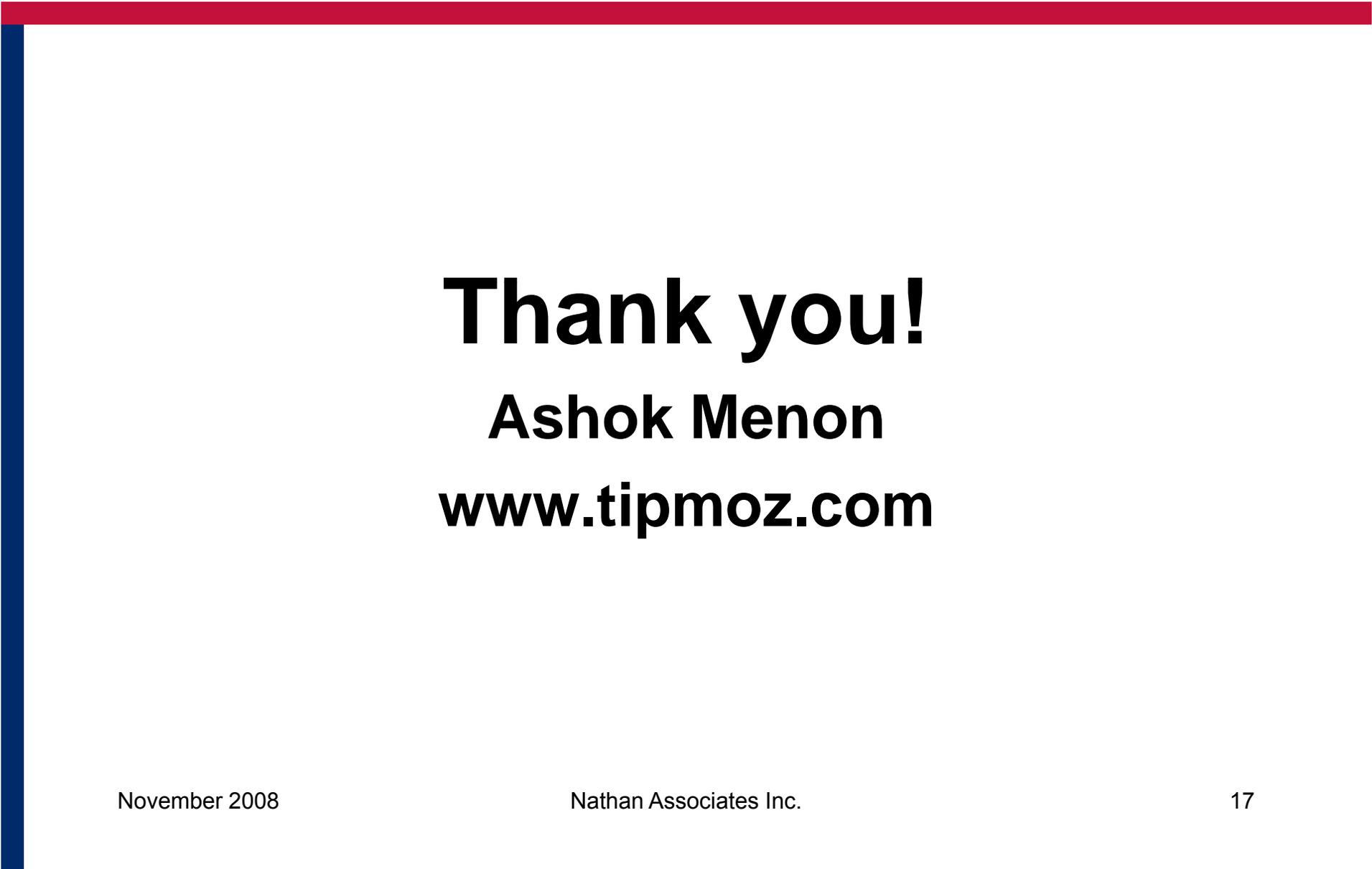
- Virtually every interview identified three major constraints to private investment in agriculture
- Land use rights (DUATs)
 - For small holders, lack of secure tenure
 - For commercial farming, DUAT process problems and lack of transferable DUATs to use as collateral
- Infrastructure
 - Pervasive problem!
 - Roads, bridges, electricity, marketing/storage, ports, irrigation
- Finance
 - Special difficulties in lending to agriculture
 - Need sustainable and innovative solutions such as supply chain financing, warehouse receipts, microfinance techniques, mobile phone banking, point-of-service terminals, credit cooperatives

Other serious constraints cited in interviews

- Lack of agronomic research and information systems
- Lack of market-support services
- Labor problems
- Tax problems
 - Fiscal benefits very favorable to agriculture, but problems with VAT; import duty remissions; 5% simplified tax on gross revenue; export tax on raw cashews
- High fuel prices
- Also mentioned
 - Red tape
 - Natural resource depletion (fisheries, forests, water supplies)
 - Disease and pest prevention
 - Water rights

Implications for Public Expenditure Management

- Central focus – Government provision of *core public goods* to stimulate investment in agriculture
- Second – Public sector interventions as *catalyst for innovation* that can be sustained by the private sector to develop the rural economy
- Third – Improved data systems for monitoring investment in agriculture and the effectiveness of public expenditures on agricultural development



Thank you!
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