

(INVESTMENT) OPPORTUNITIES FOR DUTCH AGRIFOOD COMPANIES IN MOZAMBIQUE

A Challenge for Patient Money



By Agrix

A Cebeco Handelsraad spin off

(Cebeco International)

Independent since 2004

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The Hague

Report commissioned by:

- Agricultural Council Netherlands Embassy Pretoria: mr. Niek Schelling
- Netherlands Embassy in Maputo: mr. Ton Negenman

Objective:

- Identify real business opportunities for Dutch agrifood companies in Mozambique (export/investment)

Modus operandi:

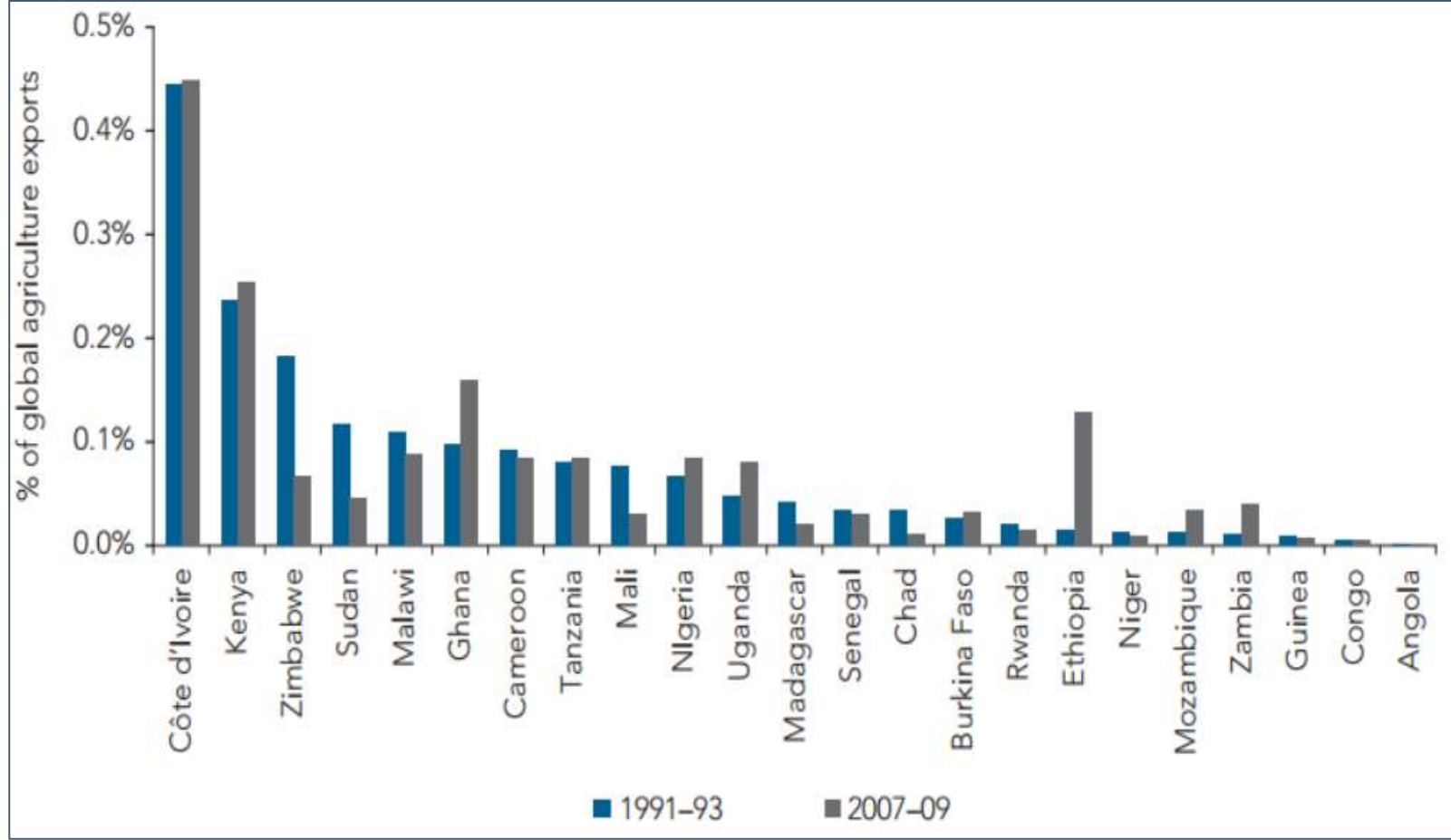
- Identify local Mozambican agrifood companies that make a difference (35)
- Identify investment vehicles active in Mozambican agrifood (45)
- Visit Mozambique (January 2014)
- Visit as many local businesses as possible (Chimoio / Maputo region: 15)
- Meet as many local agrifood business people as possible (20)
- Interview stakeholders both in Mozambique and The Netherlands (25)

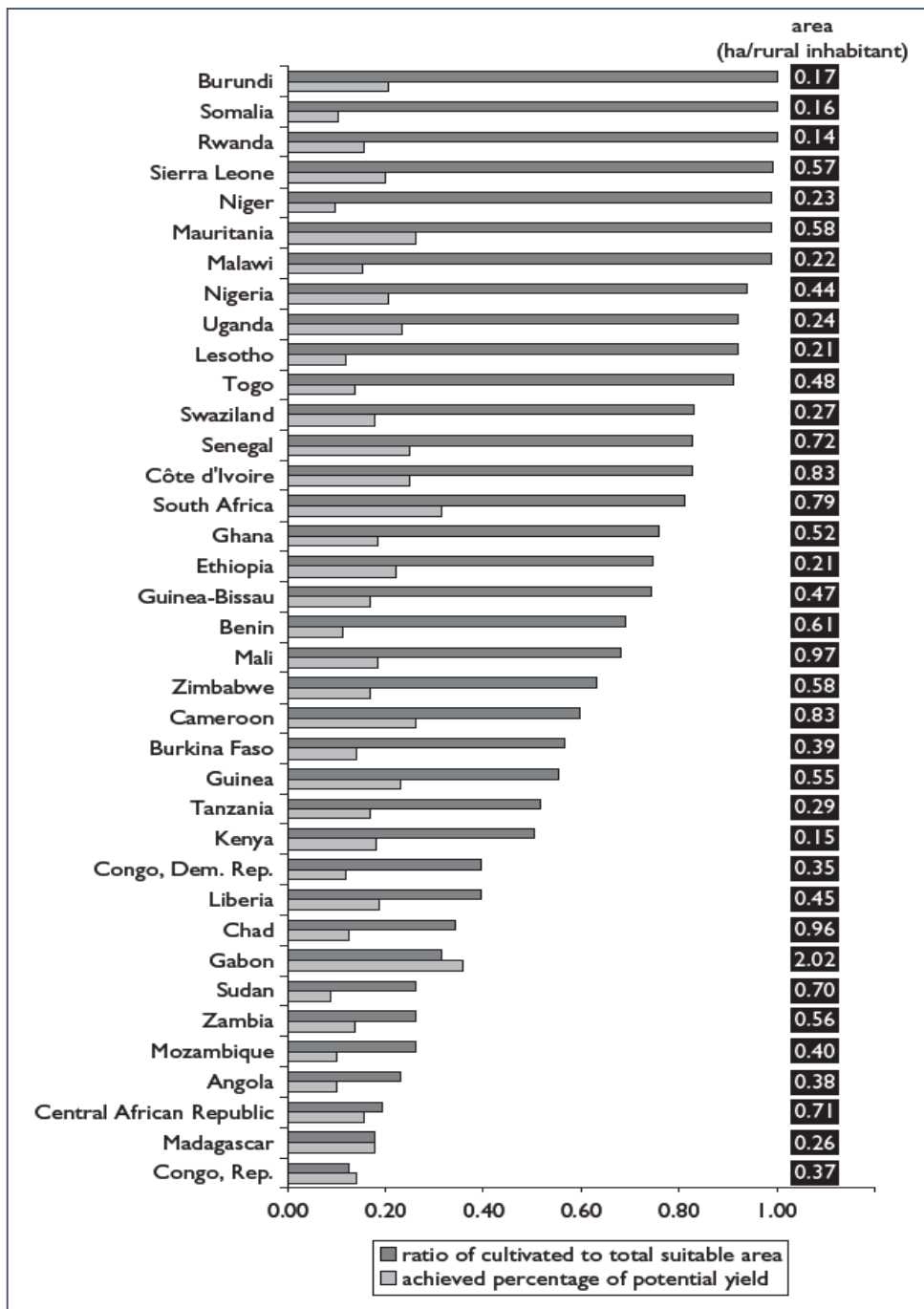
Mozambique:

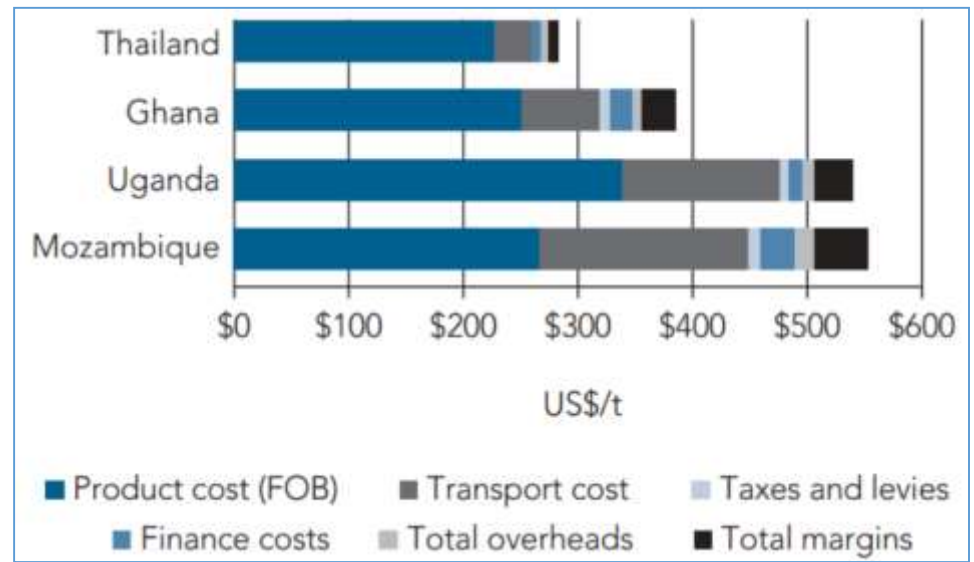
- 25 mln inhabitants
- GDP of USD 14 bln (equivalent to that of the Dutch province of Drenthe)
- Nominal GDP / capita USD 565
- Predicted GDP growth 7% to 8% (The Economist)
- Ease of doing business index rank: 139 (from 142 last yr) of 189 (WB)

- 36 mln ha of arable land available
- 8 mln ha currently cultivated
- Agriculture main source of income for 80% of the population
- 98% of farmers is small holder with a cultivated are of around 1 ha
- Less than 20% of agricultural produce is marketed (high level of self-subsistence)
- Most small holder crops only yield 25% compared to yields in South Africa
- Nampula and Zambezi provinces boost highest contribution to agricultural GDP with 45%
- Land title through DUAT: land lease no ownership







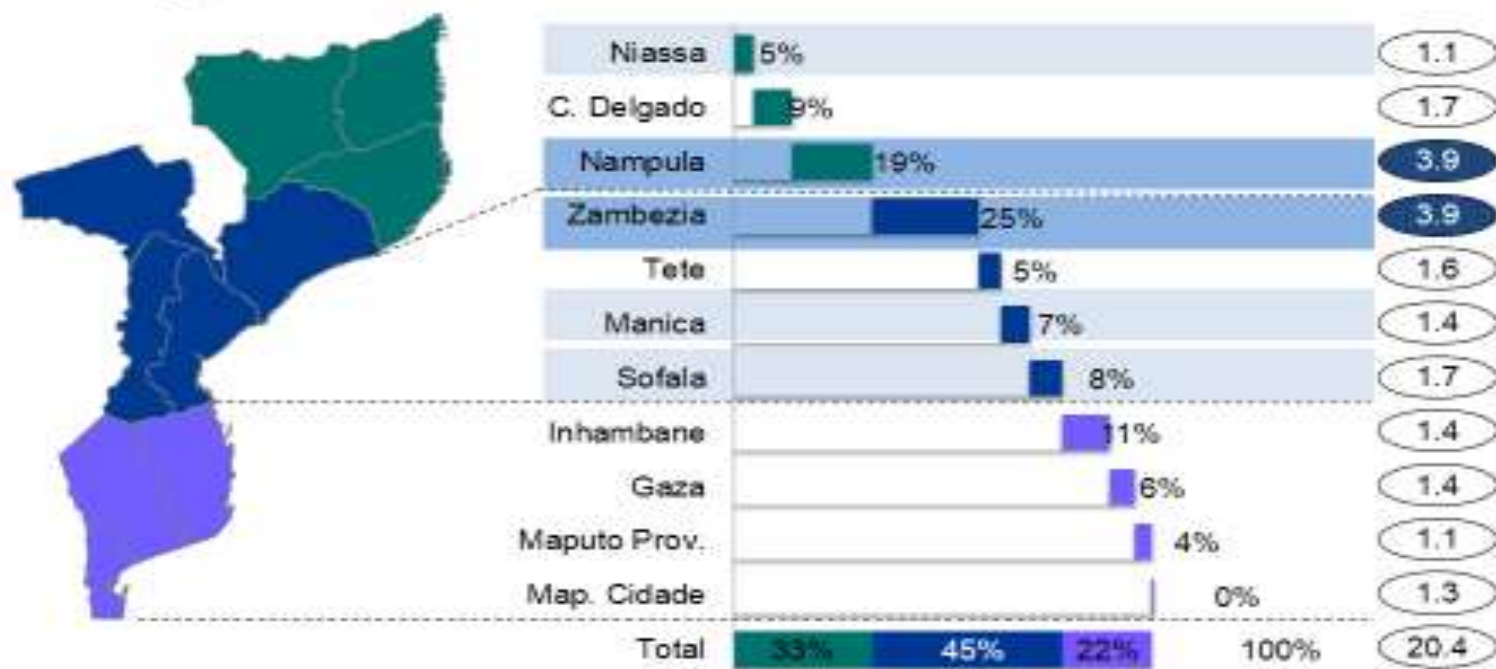


Fertilizer costs compared (WB)

Zambezia and Nampula account for the largest contributions to agricultural production, with nearly a half of total output derived from the two provinces

Share of agriculture production by province
Percentage, 2006

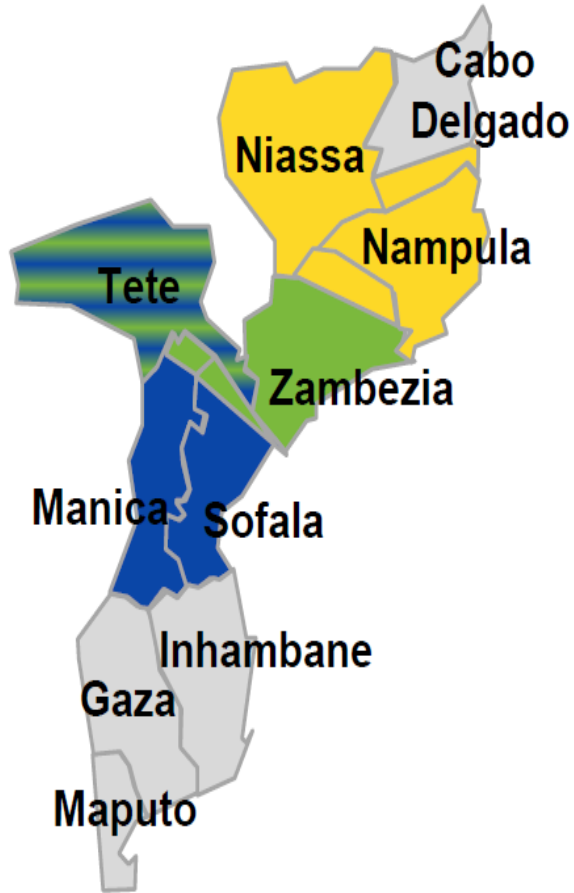
Large current production Population, Millions, 2007
High agricultural potential



Niassa, Manica and Sofala: high potential due to fertile soil, adequate rainfall and good water balance

Production is well correlated with the distribution of population

Provinces Covered by Corridors



Note: Color coding represents approximate positioning of corridors

Nacala

- Nacala Special Economic Zone provides **500 ha industrial free zone**
- Development of the **deepest port** on East African coast at Nacala
- Significant **mining investments** including **USD 4.4B** upgrade to rail by Vale

Zambezi Valley

- **Largest water reserves** in country
- **Rail infrastructure linking area to Port of Beira**
- Estimated **USD 1B** port investments by Rio Tinto
- Chinese government **USD 50M** investment for **cotton, maize and rice** processing facilities

Beira

- **Well-developed infrastructure with road and rail network linking Zambia, Malawi, Zimbabwe and Mozambique to the port of Beira**
- Ongoing foreign aid infrastructure investment for upgrades, such as **USD 70M World Bank irrigation project**

Crop area Mozambique				
	<i>ha</i>			<i>ha</i>
Maize	1.812.717		Cow peas, dry	98.695
Cassava	1.293.568		Coconuts	83.826
Beans, dry	700.000		Tobacco, unmanufactured	66.000
Sorghum	639.000		Bananas	45.000
Pulses, nes	337.876		Sunflower seed	45.000
Groundnuts, with shell	288.000		Vegetables fresh nes	45.000
Rice, paddy	238.778		Sugar cane	42.702
Sesame seed	200.000		Onions, dry	29.000
Seed cotton	189.000		Fruit Fresh Nes	28.500
Castor oil seed	185.000		Tomatoes	25.000
Cashew nuts, with shell	140.000		Tea	15.800
Oilseeds, Nes	131.751		Potatoes	13.100
Sweet potatoes	119.000		Wheat	11.941
Millet	113.642			

Source: FAOSTAT

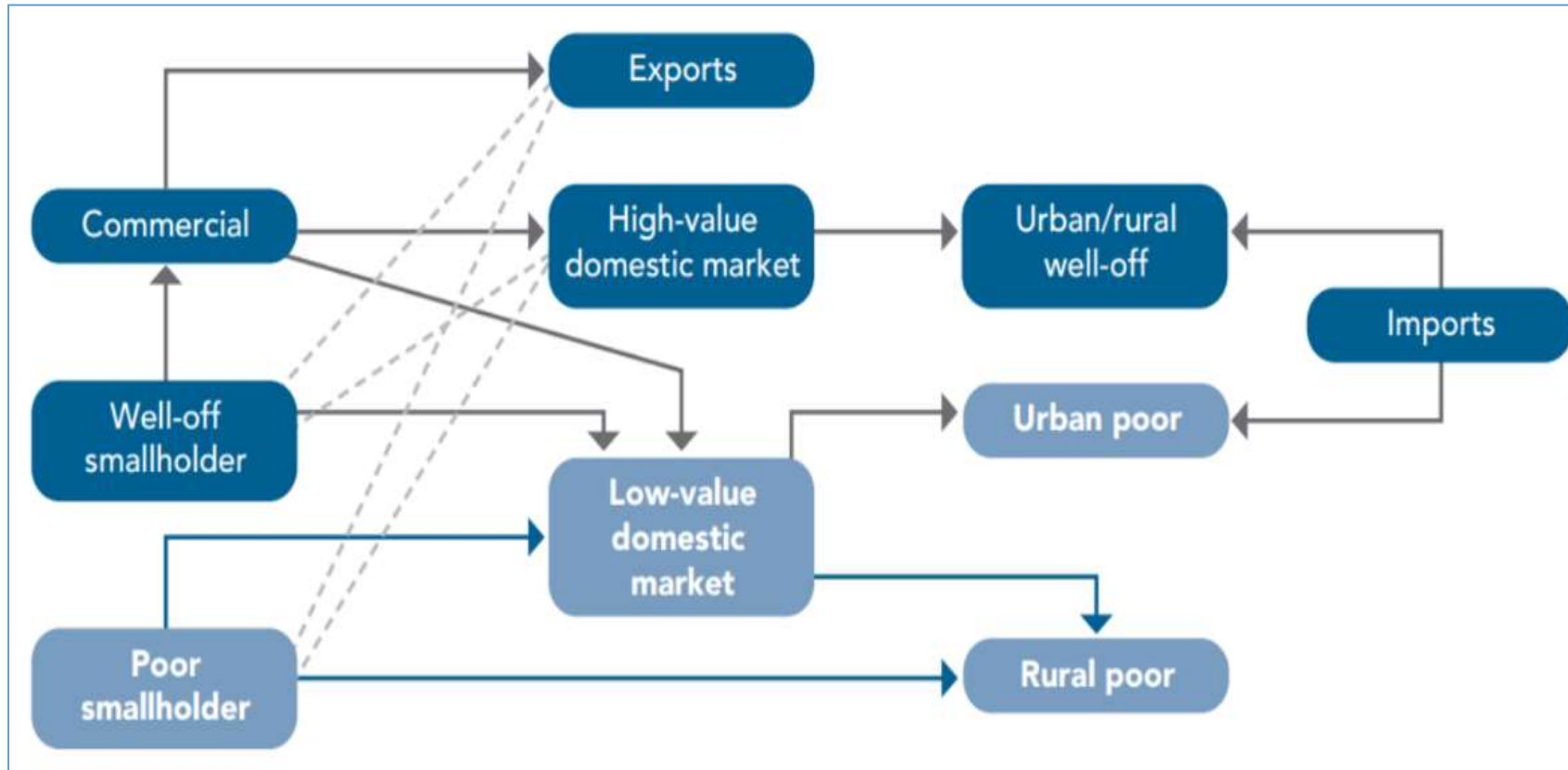
	Export agrifood Mozambique		
	Volume (t)	(x USD 1,000)	(USD/t)
Sugar Raw Centrifugal	151.130	98.897	654
Molasses	126.379	14.538	115
Tobacco, unmanufactured	52.734	216.945	4.114
Bananas	49.309	10.618	215
Flour of Wheat	37.817	19.736	522
Cashew nuts, with shell	35.802	46.519	1.299
Sesame seed	25.871	30.781	1.190
Cotton lint	16.486	40.088	2.432
Sugar Refined	11.114	6.798	612
Cottonseed	9.812	2.069	211
Maize	8.309	1.451	175
Groundnuts Shelled	6.862	5.577	813
Coconut (copra) oil	3.647	6.675	1.830
Cashew Nuts Shelled	3.464	20.908	6.036
Flour of Maize	2.920	917	314
Food Prep Nes	1.339	1.464	1.093
Tea	1.324	1.936	1.462
Grapefruit (inc. pomelos)	1.039	754	726
Oranges	710	501	706
Cigarettes	538	3.348	6.223

Source: FAOSTAT 2013

	Import agrifood Mozambique		
	Volume (t)	(x USD 1,000)	(USD/t)
Wheat	378.353	92.000	243
Rice (grain equivalent)	348.870	173.966	499
Maize	138.255	41.405	299
Cake of Soybeans	110.762	50.356	455
Palm oil	66.200	50.000	755
Soybean oil	51.915	66.746	1.286
Sugar Refined	49.906	37.999	761
Potatoes	28.062	10.285	367
Food Prep Nes	25.729	63.248	2.458
Flour of Maize	17.978	10.791	600
Sunflower oil	13.477	17.857	1.325
Chicken meat	12.797	22.938	1.792
Wine	11.088	18.697	1.686
Fatty Acids	11.041	10.021	908
Sugar Confectionery	8.131	16.701	2.054
Tobacco, unmanufactured	6.796	25.777	3.793
Cotton lint	6.501	16.962	2.609
Beverage Non-Alc	5.284	9.472	1.793
Pastry	3.847	9.808	2.550
Milk Skimmed Dry	3.403	10.014	2.943
Chocolate Prsnes	2.921	10.261	3.513

Source: FAOSTAT 2013

	Animals present in Mozambique (x 1,000)							
	2005	2006	2007	2008	2009	2010	2011	2012
Layers	2.100	2.200	3.000	3.900	4.500	5.600	6.200	9.500
Dairy cows	405	400	390	392	394	395	400	410
Broilers	18.940	26.000	25.149	26.857	32.947	31.444	30.030	25.230
Ducks	1.507	1.254	1.671	1.865	1.882	1.882	2.100	2.100
Goats	2.020	1.750	1.800	2.000	1.600	1.600	1.640	1.800
Beef cattle	125	107	147	124	124	125	127	169
Pigs	1.957	1.420	1.620	1.850	1.560	1.620	1.650	1.700
Sheep	79	58	88	73	76	80	82	83
	Source: FAOSTAT 2013							



- 98% of food sales through informal channels (BMI 2013)
- Shoprite (RSA) 5 stores in Mozambique; Pick 'n Pay (RSA) 1 store

Farming types present in Mozambique

- Self-subsistence farmers (98%)
 - Small scale, no tech, illiterate
 - Staple crops
 - No finance
 - Feed extended family, no market
 - Important for food security and employment, little potential to develop agrifood sector
- Commercial farmers
 - Small to medium scale, literate
 - Staple and cash crops
 - Some finance
 - External sales
 - Important for development agrifood sector
- Corporate farms
 - Large scale, highly integrated
 - Commodities, export
 - Highly leveraged
 - Export
 - Operating independently, limited development impact, employment



Vanduzi greenhouses Chimoio



Current agrifood clusters in Mozambique (see report)

Conclusions (1/2):

- Only few Dutch agrifood companies economically active in Mozambique (Annona, Dadtco, Intersnack, Klijn, ?) and some exporting (HZPC, Agriplant, ?)
- For any intervention, be it export or investment, 'new' technology makes the difference
- Preference for 'brownfield' above 'greenfield'
- 'Outperforming' local agrifood companies exist
- All 'outperforming' agrifood companies financed by some kind of 'patient money'
- Long term focus needed, short term returns non existing
- Scale matters: trade off between risk and return
- Commercial finance (banks) is low at less than 10% (Banco Terra: Rabobank)
- Commercial finance difficult to secure for SME's
- Finance for both equity and loans is available for projects that qualify
- Qualifying projects for (institutional) finance are:
 - Inclusive (outgrowers)
 - Sustainable
 - Have a development component
 - Profitable (scale)
- Institutional finance includes: NGO's, investment funds (Annona), private equity funds, hedge funds, family funds, development banks, philanthropic and charitable institutions

Conclusions (2/2):

- Local purchasing power very limited (only 2% of marketed goods through supermarket)
- Local production should therefore either replace imports or be for export
- Current consumption levels of protein food very low (poultry 4 kg/c; milk 6 kg/c)
- Successful companies are integrated to large extent
- Integration to secure sourcing (both quantity and quality)
- Some level of outsourcing required (outgrowers)
- Most promising agrifood sub-sector for Dutch companies:
 - Poultry (both broilers and layers)
 - Feed (integration; premixes and concentrates import)
 - Selected vegetables (catering, export, canning)
 - Flowers (roses, container transport)
 - Cashew and groundnut
- Public Private Partnership important (institutional development through public funding)
- EKN intervention focussed on PPP (EUR 36 mln to be spent on food security; 4 yr)
- The moral 'obligation': FDI limits risks of collapsing into instability; CSR issues
- The moral 'obligation': local authorities should further improve investment climate

Broilers	Parent stock	Hatchery	1 day chicks	Broilers	Slaughtering	Processing	Wholesale / retail
Layers			1 day chicks import	Layers	Grading	Packing	Wholesale / retail
Feed	Raw material input	Premixes and concentrates import	Feed mill		(Integrated egg or broiler production)		Local B2B sales
Flowers (roses)	Cuttings import	Greenhouse	Packing	Transport			Export
Vegetables	Haricots Verts	Open field (shading)	Canning				Export
Vegetables	(Green) Asparagus	Open field (shading)	Canning				Export
Cashew	Out-grower	Collection	Processing				Export
Groundnut		Open field	Drying	Shelling			Export
Starch	Cassava Out-grower	Starch processing plant		Transport			Export

Dutch agrifood strongholds and Mozambican opportunities combined

Recent publications (cited in Agrix report):

- Brouwer, H., Haverkort, A., Montsma, M., & Rothuis, A. (2013). *Impulses for perishable products, Quickscan of potato, aquaculture and horticulture cold chain opportunities in the Zambezi Valley, Mozambique*. Wageningen: WUR.
- W.Heemskerk, G.Borman, I.Muocha, A.Manjate, & W.Kleijn. (2014). *Integrated seed sector development in central Mozambique*. Amsterdam: ADVZ/Seed Department/KIT/CDI.



Thanks for your attention