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Lessons from Brazil in Mozambique's Nacala Corridor

By ELEANOR WHITEHEAD

Brazil is helping develop Mozambican agriculture by promoting large-scale farming and supporting smallholders. Can it do both at once?

Home to around 36m hectares of arable land, Mozambique is reliant on the agriculture sector for a quarter of its economic output and has long attracted the interest of commercial farmers.

Yet the country's agriculture story has been one of uneven performance and untapped potential. Large-scale investors have struggled to launch projects, and those that have have faced constraints ranging from drought to 'land-grab' protests by local farm unions. At present, only about 3.9m hectares – or 10 percent of arable land – is actually under cultivation, with 97 percent worked by local smallholders.

Mozambique's government is hoping to change that through a project called ProSavana, which aims to transform swathes of under-used savannah in the Nacala Corridor, in northern Mozambique, into productive agricultural land. By mapping out which crops should be grown where, it hopes to usher in a new stream of local and international investors while also mobilising thousands of local smallholder farmers.

Brazilian lead

ProSavana, which spans an area of millions of hectares, is a triangular partnership between Mozambique, Brazil and Japan. The partners will help Mozambique upgrade its infrastructure, including rail links, a port, and a 350km road, to make it easier for farmers to export their goods. The Brazilians are already giving a much-needed boost to the region's transport infrastructure, with mining giant Vale starting construction on its $4.4bn freight corridor, linking mines in the land-locked Tete province to Nacala port, in December last year.

The Nacala project is inspired by Brazil's own Cerrado development programme – which also received Japanese support between the late 1970s and 1990s, and was responsible for turning the country's 200m hectare Cerrado savannah into a world-leading soybean producer. Having successfully contributed to an agricultural revolution at home, Brazil's farm research corporation Embrapa is helping Mozambique -- which has climate and soils similar to the Cerrado -- adapt soybeans, rice and other crops for local conditions.

"The Brazilians have a very good experience in tropical crops. We have been working a similar landscape for more than 40 years and we know exactly what you can use the land for, what crops you can harvest, how you can make it productive and cost-efficient. In anything related to tropical crops we have a clear leadership in the world," says Cleber Guarany, coordinator at FGV Projetos, a not-for-profit organisation advising the Brazilian government on its work in Mozambique.

FGV is developing a masterplan for the corridor, which will create zones for the production of corn, cotton, soya, cashew, coffee and rice. The Nacala Fund – which started fundraising in November – is expected to attract up to $2bn into the region starting in June; and while FGV is initially courting Japanese and Brazilian agribusinesses, it expects other investors from North America, Europe and Asia to follow.

Central to the masterplan is a strategy to integrate local producers into the same value chains as commercial investors via contract farming and cooperatives; an approach that could be replicated across the country and continent. As well as supporting private investors, the Nacala Fund will include a social share class used to finance smallholder farmers.

"Our intention is that additional to finance under the social pillar of the Nacala Fund, the medium and large investors will give a guarantee to the small farmers for technical assistance, and a guarantee to buy the produce of the small farmers," Mr Guarany says. "We have good examples in Brazil where we have successfully integrated small, medium and large producers in the same value chain. Right now in Para state in Brazil, small farmers are making $1,000 per month by selling to large palm oil companies under long-term contracts."

Separately, the ProSavana Development Initiative Fund -- a bilateral pilot project between the Japanese International Cooperation Agency and Mozambique's government -- is already testing the financial model that will feed the masterplan. It has provided technical and financial support to companies which integrate small-scale producers into their value chains – including Lozane Farms, Ikuro, Orwera Seed Company, Matharia Empreendimentos and Santos Agricola, which all operate across the Nampula and Zambezia regions.

The loans granted to these companies carry a maximum interest rate of 10 percent, with no other commissions – a lower rate than could be obtained from Mozambican commercial banks.

"The projects which were recently approved are expected to induce direct gains to about 2,000 small producers that have established contractual obligations of mutual provision and exchange of goods and services with beneficiary companies," says Calisto Bias, ProSavana's coordinator.

Rough road for investors

Brazilian agribusinesses have already showed interest in Mozambique. Pinesso Group, the Brazilian producer, recently started operations in the country and sugar cane processor Tereos also runs mills there. But it has not always been easy running. Last year, farm producer SLC Agricola announced that it was targeting the Nacala Corridor for its first investment outside of Brazil – seduced by cultural ties, similar conditions and easy access to Asian markets. However, the group recently decided to postpone its investment for at least two years, based on underdeveloped infrastructure, land ownership and production difficulties, a spokesperson told This is Africa.

"We found out that in Mozambique we would lease the land from the government, because it's not possible to buy the land, and we would also need to negotiate terms of the leasing with the local tribe. So that means two negotiations. We also thought that the infrastructure projects would be more advanced," he says.

Access to Brazilian seed technology is also proving problematic, although Embrapa is already testing varieties in Mozambique. "Some other Brazilian farmers that are starting operations in Mozambique have found that they cannot use the same type of seeds that we use in Brazil because the biotechnology companies still cannot charge royalties in Mozambique for the products they sell – so they don't feel safe entering the market. Therefore we wouldn't have access to the best seeds," he says.

Similar challenges are likely to beset new investors. And despite measures to support the smallholder, ProSavana has already attracted criticism for displacing local communities. Sceptics claim that it is likely to achieve a lot for big investment, but less to help the smallholder, although FGV's Mr Guarany says that stakeholders have gone to lengths to work with local leaders.

"We have been talking a lot with local chiefs to understand what we can best develop for them, and we have received good inputs and directions about how to give opportunities to local farmers to produce crops that there are markets for," he says. "This is a programme for 10 or 20 years just to guarantee that there will be knowledge transfer."

When small meets big

Despite the outcry, existing multinationals in Mozambique are proving that smallholders can be brought successfully into value chains. Olam, the Singapore-listed agribusiness, buys cotton, cashew, sesame and peanuts direct from 70,000 smallholder farmers in the country.

"Farmers would typically experience problems with access to seeds, access to chemicals, and bad conditions," says Indranil Majumdar, general manager of Olam Mozambique. "We save him from the crop risk by giving him an input: distributing seeds to him, giving him the chemicals and the sprayer to treat the crop, and teaching him how to scout for insects. And we also save him from the secondary risk – the price risk – by buying his crop at a government-approved price."

The upshot is that the company is exposed to all the risk, so making these business models profitable can be challenging. "We provide money and inputs to tens of thousands of marginal farmers in completely unsecured loans. If the crop fails – and with rain-fed crops, there is always a chance of that happening – all the inputs that we have provided are lost," Mr Majumdar says.

But crop insurance is helping. Olam also provides extension workers to train farmers, and is using satellite technology to monitor the progress of its crops. "That helps because you can see if there's a certain area where there's a drought coming, or a certain area where the crop has been stunted, and you can change your inputs," Mr Majumdar says.

Olam does not disclose revenue by country, but says that it is happy with business in Mozambique. In 2011 it invested $35m in rice production, supporting the country's efforts to become a net exporter of the foodstuff, and it is currently building a vegetable oil processing plant as well. If evidence was needed that its smallholder supply model works financially, Olam's net income soared 20 percent to $124.3m over the three months to December 3.

Mozambique has its fingers crossed that it can replicate the model across the Nacala Corridor. "There are real opportunities in Mozambique to link the smallholder sector to developments on the commercial side," says Claus Reiner, country programme manager at IFAD. "The solution lies in an integrated approach that provides the access to inputs together with access to markets."