

**Agricultural Sector Program Support, DANIDA, Mozambique**  
**Extracts from the Project Proposal and Documents related to Value Chain Development<sup>1</sup>**

**Support to Agri-Business Development (VCD)**

It is expected that the agri-enterprise development will gain momentum, that the trading network will improve and that an increasing number of processing industries will be established in the coming years. The major aim will be to support this development, i.e. establishment/consolidation of input providers, trading companies, processing companies and, business service providers, thereby increasing the economic activity and potential for farmers to improve and expand their production.

**Expected Outputs**

**Transparency of markets and market relations promoted**

Focus will be on overcoming the common constraints for the different agents in the market chain so that the links are tied together in a more efficient way. The Component will on the basis of economic mapping and value chain analysis, support interventions with regard to connecting and communicating the supply side of the market (small scale farmers/associations supported under intervention area 1) with the demand side (traders, processors and end markets). This means that the Component also has an important role in bringing the various actors in the value chains together, rather than dealing with them in isolation (i.e. design interventions across the agricultural chain rather than simply addressing perceived bottlenecks in certain parts of the chain).

**Constraints of private sector development documented and addressed in public-private sector dialogue**

The Component will monitor the general business environment in their areas, and develop modalities for documenting and bringing the perceived problems to the attention of national and regional authorities. A strategy for including other public authorities and stakeholders that “belong” to other administrative departments (industry and commerce, public works, watershed authorities and finance) should be developed and discussed.

**Professional capacity of SMEs increased.**

The Component will provide support to overcome the internal constraints that SMEs are subject to, mainly through connecting them with business development services and institutions that are specialised in inputs required by the individual SMEs. The support to the SMEs will be given on demand-driven basis, and will aim at improving their professionalism and efficiency.

**Strategy**

The Component will address specific constraints and needs in the value chains (trading, processing, market linkages). The activities will be based on the economic mapping and value chains analysis to be carried out. The Component will provide technical support and coaching to help eligible SMEs with elaboration of proposals for projects that can be co-financed by the Component or referred to banks for financing. Eligible proposals will mainly include business development services. The support will in principle be demand driven. Demand for the services of the intervention area should be expressed by: commercial actors in the market, trade associations and in some cases public institutions engaged in the agricultural sector. The demand should as a principle be expressed by willingness for and capacity to co-finance the services.

**Scope and Sustainability of the Support**

The temporary and catalyst role envisaged implies that financial and institutional sustainability is not a main concern for the PSD Component. The relatively temporary role of the intervention area could mean that an alternative institutional setting may be required after the end of the programme, but it will be left to others to

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<sup>1</sup> These extracts have been edited slightly.

decide whether there is a need to formalise the intervention area organisation or promote other institutions to provide the necessary assistance.

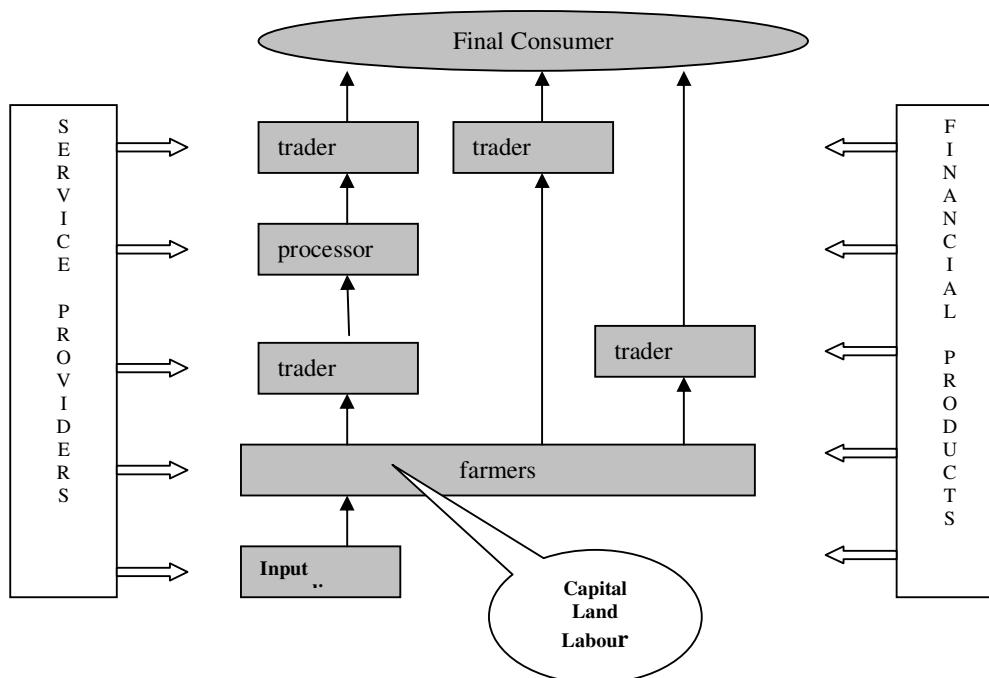
The ultimate measure for the sustainability of the support to SMEs will be whether the Component activities have contributed to improve the agro-enterprise performance in the targeted areas and thereby increased the economic growth and employment, reduced poverty and met social objectives.

### Activity Outline:

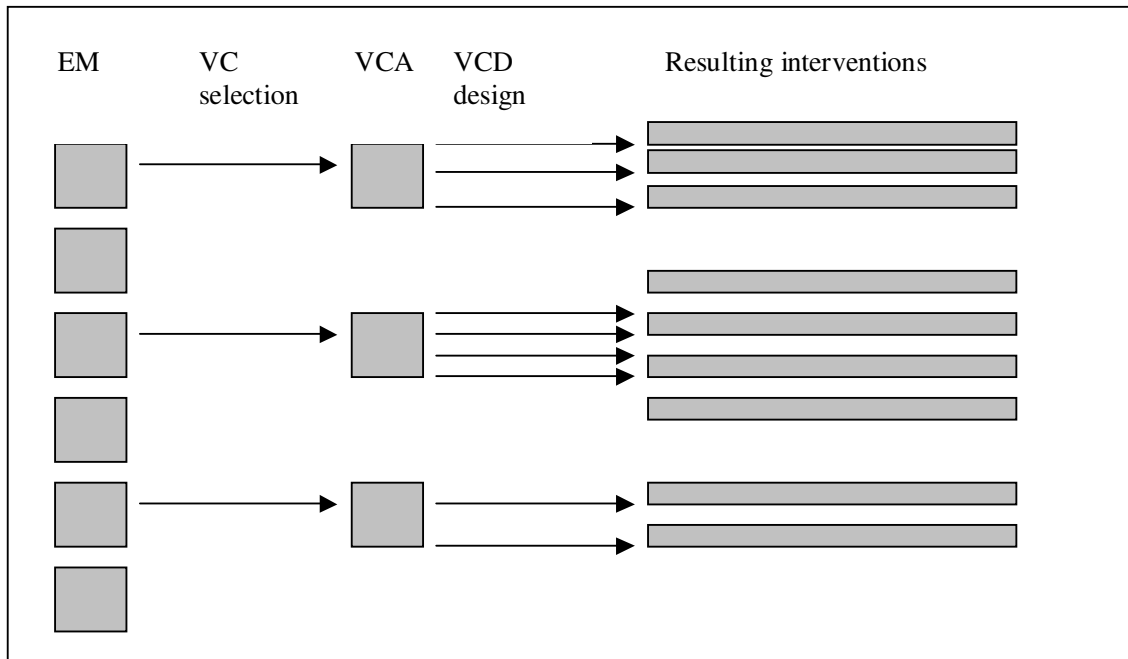
#### 1 Transparency of markets and markets relations promoted

Activities under this output focus on overcoming the common constraints for the different agents in the market chain so that the links are tied together in a more efficient way. The Component will support interventions with regard to connecting and communicating the supply side of the market (small scale farmers/associations supported under intervention area 1) with the demand side (traders, processors and end markets).

This means that the Component also has an important role in bringing the various actors in the value chains together, rather than dealing with them in isolation (i.e. design interventions across the agricultural chain rather than simply addressing perceived bottlenecks in certain parts of the chain).



It is envisaged that complementary economic mapping shall be undertaken in each geographical area of intervention to gain more insight into the most important value chains (see table below for important parameters to consider in the value chains), and possibly to focus the support of the component on crops that are particularly important for smallholder families and which have specific potential under the given agro-ecological conditions.



The economic mapping will identify the major value chains and areas of agricultural potential. Based on actual interest from the market actors, selected value chains and production areas will be analysed in greater detail providing a basis for bringing the economic agents together.

#### Parameters for Value Chains selection

| Parameters   | Description  |
|--|--|
| Market Demand and Growth Potential                       | <ul style="list-style-type: none"> <li>Evidence of strong effective demand for products being produced</li> <li>Buyers have ready market for products but are unable to meet demand</li> <li>Unmet demand from municipal authorities or large public works projects</li> </ul> |
| Potential Increase in Income and Wealth                  | <ul style="list-style-type: none"> <li>Potential for increased revenues at all levels of sub sector.</li> <li>Projected increases in sales, profits, or returns to labour</li> </ul>   |
| Opportunities for Linkages                               | <ul style="list-style-type: none"> <li>Potential forward/backward linkages between large and small enterprise.</li> <li>Large buyers are overlooking SMEs as a source of supply or unable to organize them to meet their demands.</li> </ul>                                   |
| Potential for Employment Generation                      | <ul style="list-style-type: none"> <li>Potential for enterprises (large and small) to create new employment opportunities as the sub sector develops or expands.</li> </ul>  |
| Number of SMEs   | <ul style="list-style-type: none"> <li>Number of SMEs operating in the sub sector</li> </ul>   |
| Value Added Potential                                    | <ul style="list-style-type: none"> <li>Potential for SMEs to add value to raw materials and gain higher earnings.</li> </ul>   |
| Potential For Increases in Productivity                  | <ul style="list-style-type: none"> <li>Potential for technologies or management systems to increase the productivity and earnings of enterprises in the sub sector.</li> </ul>   |
| Government or Donor Interest / Existing Support Programs | <ul style="list-style-type: none"> <li>Government interest in a sub sector (can translate into positive linkages with government services, and favourable policies)</li> <li>Existing programs that can provide synergy and complementary activities.</li> </ul>               |
| Competitiveness  | <ul style="list-style-type: none"> <li>Competitiveness of the sub sector on the world market and/or of SEs in the sub sector.</li> </ul>   |
| Agency Mandates  | <ul style="list-style-type: none"> <li>Mandates such as participation of women, rural focus, environmental impact, etc. can be considered and weighted in accordance with the importance the agency puts on them</li> </ul>  |

To facilitate market linkages it is necessary to improve the availability of information for the actors in the agricultural chain:

- Traders, processors and end markets will need general information about structure and production of the supply side, trends in local, regional, national and international markets and trade regulations.
- Farmers/associations in the geographical area of intervention need information about the market trends
- Agricultural input providers, research institutions and extension services will need information about both the demand side and supply side.
- All participants will need information on credit facilities of various financial institutions.

The Component will liaise with private and private institutions engaged in the generation of such data in order to support the dissemination. The component will have budgets for financing, on a cost sharing basis whenever applicable, activities related to value chain development, such as research (desk studies, fieldwork, training, workshops, hiring of external expertise), pilot activities and dissemination of various results and best practises.

## **2 Constraints of private sector development documented and addressed in public-private sector dialogue.**

A number of hindrances to businesses and associations regarding agriculture development are evident, such as:

- Difficulties in registering a business
- Difficulties in registering an association being a cumbersome and costly process.
- Low land transferability. Limiting capacity for collateral and reduces incentives for land improvement.
- Labour law. Studies indicate that the Mozambican law is one of the most non-competitive in the region.
- Customs issues. Companies that export and import face many problems and hassles. Regulations are numerous and there seems to be a very poor understanding of regulations outside of Maputo, and lack of coordination between government entities.
- Access to finance. This is a very severe constraint. The lack of collateral, or the excessive amounts of collateral required, is prohibitive for SMEs access to credit.
- Refunds from the government, VAT and duty refund, are very cumbersome. As a consequence capital that could have been used for investment is tied up.
- Sanitary-Phyto-Sanitary (SPS) controls are insufficient. This is presently a threat to the high potential horticulture sector.
- A general environment of corruption. This takes many forms which are well known to the business community as well as the government

Most of these hindrances are not unique for the agricultural sector, but it obvious that some of them could be addressed in dialogue between the specific entities that influence the agricultural sector.

The Component will monitor the general business environment in their areas, and develop modalities for documenting and bringing the perceived problems to the attention of national (and regional) authorities. At the regional level the “Agricultural Development Forum”, that is a part of the organisation chart of the provincial agricultural ministries, could be particularly interesting to work with in the context of agriculture, but a strategy for including other public authorities and stakeholders that “belong” to other administrative departments (industry and commerce, public works (roads), watershed authorities (ARAs) and finance) should be developed and discussed.

Connecting with relevant apex organisations in the agricultural business sector could be feasible. The Component could support their capacity to engage effectively in policy discussions with the government and in providing certain business development services to their members. It is not generally planned that the component should support the development of national level apex organisations but it is relevant to monitor what is happening and support possible initiatives that are of relevance to the objectives of the component. The Component will have a budget for these activities including facilitation of public-private sector exchanges, policy interventions/dialogue, networking, information activities and training.

### **3 Professional capacity of SMEs increased.**

The Component will provide support to overcome the internal constraints that SMEs are subject to, mainly through connecting them with business development services and institutions that are specialised in inputs required by the individual SMEs. The support to the SME will be given on demand-driven basis, and will aim at improving the SME's competence and know-how within its field of operation. This support can be within the following areas:

- Elaboration of feasibility studies, market studies, business plans etc. for SMEs
- Technical training and business training of staff
- Development and testing of new technologies for processing
- Achieving information on standards of quality and adapting them to local conditions (including organic certification, standards and grades for processed produce, etc).
- Support to promotion activities
- Support to advisory services to farmers related to the extension of an out-grower scheme

The Component will include support to the emergence of new entrepreneurs within production and processing. It seems particularly relevant to address the limited management experience amongst national entrepreneurs, and it could, therefore, be considered to facilitate "twinning arrangements" to transfer management experience, but also with regard to combine business ideas and investment capacity.

The expansion of viable business development services may be done by embedding BDS providers in the larger companies. The companies' costs of promoting the BDS providers may be offset through improved productivity, sales, efficiency and more reliable supplies, depending on the nature of the business. Furthermore the component will collaborate with existing financial institutions on providing credit to SMEs and farmer associations. The Component will support training of young professionals, employed in SMEs or other professionals with the aspiration to establish themselves as business service providers through traineeships, short term contracts, and attachments.

#### **More information:**

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