



European Research Institute on Cooperative and Social Enterprises

Identifying Processes and Policies Conducive to Cooperative
Development in Africa

Mozambique Country Report



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1. National context and agrarian policies

Mozambique gained its independence from Portugal in 1975 at the end of the war for independence conducted by the *Frente de Libertação de Moçambique* (FRELIMO) and after the fall of the Salazar regime in Portugal. FRELIMO became the ruling party and is still in power nowadays. The first phase after independence has been marked by a socialist direction that started to be modified in 1983 and since then has progressively been reformed in a market-oriented way. The main turning point of Mozambican economic policy was the *Programa de Reabilitação Económica* (PRE) in 1987, which was in fact a structural adjustment program. The years after independence have seen a long civil war between the government and the guerrilla army RENAMO. This has had a big impact on rural areas, which often became unsafe to the point of being, in some cases, abandoned by the inhabitants; the infrastructure was severely damaged. The war ended in 1992 with the peace accords signed in Rome.

If we look to agrarian policies, we can identify two macro-strategies (Mosca, 2009): first, a state-led one that concentrated accumulation patterns in the public sector; second, a market-driven one, where regulations have been abolished following the principle of “not distorting prices”. According to the same author, both strategies have not prioritized agriculture: the main characteristics of the agrarian sector are the same when comparing recent years to pre-independence times. The main production statistics remain the same, and the size of landholdings does too. According to Mosca’s data, 99.3% of plots of land were smaller than 10 hectares in 1970; the same figure in 2009 was 99.6%. According to Hanlon and Smart (2014), the median farm size is one hectare, which means that the great majority of farms are in fact tiny. The main food crops are maize, cassava, millet, and rice, while the main cash crops are tobacco, cotton, sugarcane, and cashews.

Box 1. *Lei de Terras* (L. 19/1997)

In Mozambique, land is owned by the state; the constitution acknowledges the citizens’ use right. The 1997 *Lei de Terras* aims to mediate between the rights of local communities, the willingness to secure some form of individual tenure, and the willingness to attract investments. The central feature of the legal framework is the recognition of multiple ways to acquire the use right, or *Direito de Uso e Aproveitamento da Terra* (DUAT) through customary right, unopposed “good faith” occupation, or formal request to the state for a new DUAT, which is applicable to investors and foreigners. The DUAT can be individual or collective (it can be acquired by a cooperative, for example). It is not a distributive land reform, but a tenure reform that gives recognition to forms of tenure that otherwise would remain invisible and insecure (Tanner, 2002). It is acknowledged that the law suffers from limitations on the implementation side and that most farmers still do not fully know what their rights are.

Poverty levels are high in Mozambique, even though the end of the war had a positive effect on poverty indicators. The headcount ratio at the national poverty line decreased from 69.4% in 1996 to 54.1% in 2002¹. It has to be noted, nevertheless, that between the two surveys, the poverty line changed. If the threshold had remained the same, the reduction in poverty would have been of only six percentage points instead of fifteen (Cunguara and Hanlon, 2010). Still, even considering the adjusted line, poverty rates stopped decreasing afterwar 2002. In 2008, the same indicator showed that 54.7% of the population fell below the poverty line (the national poverty line in Mozambique is 18 meticais (Mt)², which is about 0.30 USD)³. Using the 1.90 USD poverty line, Mozambique had

¹ World Bank data <http://data.worldbank.org/country/mozambique> [Accessed: December 29, 2015].

² 2011 data.

68.7% of the population living in poverty in 2008 against 56.2% in “low income countries” and 46.8% in the SSA region (only including the developing countries of the region). Poverty is mainly rural, and it is an increasing problem, as can be seen in Table 1, which shows the evolution across time of the median income of rural households. A small overall increase between 2002 and 2005 can be seen, but this ends after 2005 and is more than compensated for by a significant decrease.

Tab. 1: Median rural household income (2008, USD)

	2002	2005	2008
Bottom decile	49	42	35
2	108	111	94
3	157	161	146
4	219	231	221
5	315	320	293
6	412	433	366
7	561	616	467
8	763	932	700
9	1,084	1,707	1,234
Top decile	2,513	3,654	2,510
Total	329	391	298

Source: Trabalho de Inquérito Agrícola (TIA) data elaborated by Cunguara and Hanlon, 2010.

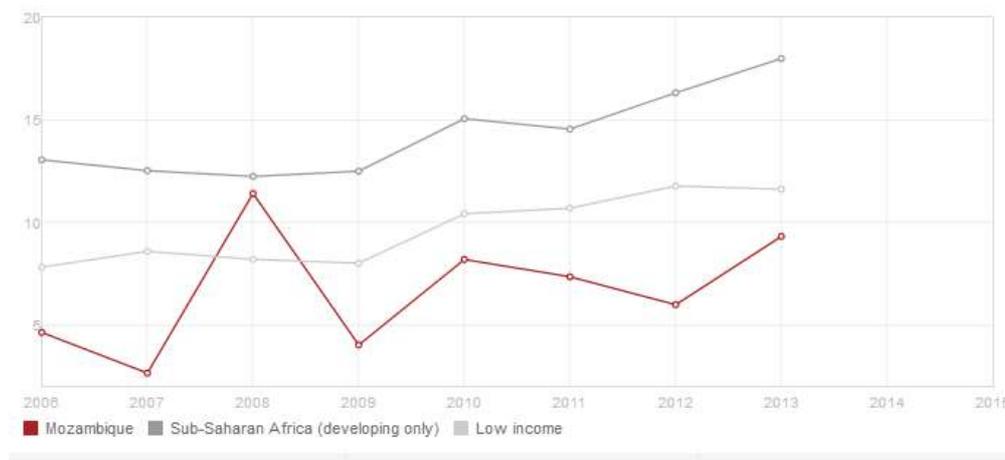
This is a striking picture, given that the figures on overall economic growth have been stable at around 7% per year and that Mozambique is generally considered a “success story”. Growth in Mozambique, in recent years, has been fuelled mainly by big investments in the extractive sector; the lack of development in agriculture is considered at least a partial cause of the disappointing results in poverty reduction. The rural population is still almost 70% in Mozambique, but agriculture accounts for 25% of GDP. Mozambique has a huge agricultural potential, but is a net importer of agricultural products (Hanlon and Smart, 2014). Both Hanlon and Mosca argue that no big changes have occurred since the 1970s in the agrarian production structure and in the available technology. The positive results after the end of the civil war can be ascribed to the fact of more land being cultivated, thanks to the end of rural insecurity and migrants going back to their land.

Productivity in agriculture has been stagnant in the last few years, as can be seen from World Bank data: agriculture value added per worker is at the same level as in 2011 and significantly lower than the average level in SSA. Increases in productivity have been blocked by different factors, among which the most relevant is rural poverty, since few producers can afford buying fertilizers. The data from 2013 showed that the median cash income in rural areas was 1,000 Mt, which was more or less the half the price of a bag of fertilizer. According to the World Bank data, the consumption of fertilizer per hectare of arable land (9 kg/ha) in 2013 was half the SSA average and lower than the average in low-income countries (11.6), besides being much more volatile and instable. Increasing

³ July 2016 data.

productivity is moreover a risky activity, and the risk-bearing capacity of Mozambican smallholders is very limited (Hanlon and Smart, 2014).

Fig. 2: Fertilizer consumption (kg/ha of arable land)⁴



Source: World Bank data⁵

As mentioned, another aspect is the very small size of landholdings that prevents the exploitation of economies of scale. As Hanlon and Smart (2014) put it, the main constraint is the available (or affordable) technology, which on average does not allow farming of more than one hectare of land per farmer. The same authors argued that Mozambican policies have not tackled this problem since they adopted a dualistic approach: the support to tiny farmers as subsistence producers, on one hand, and to large plantations on the other, delegating the “commercial part” of agriculture to them. This has led to a lack of consideration for the need to scale-up the grassroots small producers.

The 2011 *Plano Estratégico de Desenvolvimento do Sector Agrário* (PEDSA) admits that peasants did not increase production in response to market liberalization. This is linked to the aforementioned factors, to which others shall be added: first, an infrastructural problem, which causes marketing costs to be very high (Navarra, 2013); second, the lack of credit, which is particularly strong in rural areas; and third, the poverty in terms of assets of the rural population, which reduces its risk bearing capacity (Boughton et al., 2007). Low prices paid for primary products are an important issue in Mozambique. According to the MAFAP-FAO report⁶, producers of all commodity groups, except for imports, received lower prices compared to international prices throughout the period analyzed (2005–2010), and this was true for the overall price indicator on the agricultural sector.

According to Hanlon and Smart (2008; 2014), all these elements call for a greater role for the state in promoting commercial agriculture and rural development and in alleviating poverty. Partially, this is recognized by the PEDSA, which also looks at the differences between what it calls small

⁴ Fertilizer consumption measures the quantity of plant nutrients used per unit of arable land. Fertilizer products cover nitrogenous, potash, and phosphate fertilizers (including ground rock phosphate). Traditional nutrients—animal and plant manures—are not included. [...] Arable land includes land defined by the FAO as land under temporary crops (double-cropped areas are counted once), temporary meadows for mowing or for pasture, land under market or kitchen gardens, and land temporarily fallow.

⁵ <http://data.worldbank.org/country/mozambique> [Accessed: December 29, 2015].

⁶ <http://www.fao.org/in-action/mafap/home/en/> [Accessed: December 29, 2015].

farms (less than 10 hectares cultivated) and medium farms (more than 10 hectares cultivated) and points to the need to “facilitate more differentiated interventions in response to the specific technological needs of the producer”. Nevertheless, the main focus of PEDSA is the agribusiness model and the partnerships between small producers and big contract firms as a source of development. The PEDSA notes, “Contract farming such as the promotion of tobacco and cotton, coupled with credit in kind, is an example to emulate”. This focus on agribusiness is shared by one of the two main programs of Mozambican public policies, which is the Beira Agricultural Growth Corridor. This opens up several potentially delicate issues, including smallholders’ bargaining power, the “selection of the biggest” into contracts, and the need for contract enforcement (Pellizzoli, 2013).

2. Agrarian cooperatives: an overview

After independence, when the Mozambican government adopted a socialist direction, cooperatives were crucial in the organization of the rural economy. The management of these organizations was nevertheless very centralized, and they were more similar to state enterprises than to private businesses. In the 1980s, the system was finally abandoned. Some cooperatives continued to operate, but without a proper policy framework. From the 1980s, nevertheless, some autonomous experiences of cooperatives emerged, such as the *União Geral das Cooperativas de Maputo* (UGC), and the national farmers’ union of Mozambique, the *União Nacional dos Camponeses* (UNAC), funded in 1987⁷, that promoted associations and cooperatives. In the rural areas, associations continued to exist to provide services to member producers and, in some cases, to supply credit or storage facilities; they more frequently called themselves “associations” instead of “cooperatives”, but they were very similar organizations. Because of this, some rural development programs had “producers’ associations” as partners, but they could be considered cooperative development programs (Inguaggiato, Navarra and Vailati, 2013).

The cooperative movement is now expanding, following the Western model of cooperatives. Most of the expansion efforts are in the agricultural sector, where the challenges highlighted in the previous section open important spaces for cooperative action. In 2009, a new law was approved (*Nova Lei das Cooperativas*, see next section) under the pressure of the national cooperative movement and international civil society. For agrarian cooperatives, the regulatory decree that will detail the general law in the specific sectors is now under discussion.

The absence of data and statistics makes the task of giving an overview on agrarian cooperatives quite hard. For the same reason, it is difficult to evaluate the impact of the new law on the creation of cooperatives.

The challenges highlighted in the previous section seem to open up the possibility for action on agrarian cooperatives. First, regarding the need to scale-up production, when Hanlon and Smart (2014) claim the need to support commercial farmers, they argue that these small and medium-size producers can themselves be associations of smallholders. Still, they argue that the support that they receive has been insufficient with respect to their development potential.

⁷ Registered in 1994.

Moreover, the development of contract farming linked to agribusiness, which is promoted in PEDSA, brings up the need to strengthen the farmers' position, since these relationships put the producers into a monopsony. Smallholders are bound to sell to a single buyer, either through the contract or because of insufficiently competitive agrarian markets; this means that the buyer has total control over prices and assessments of quality. Moreover, contract enforcement is very limited: the buyer can break the contract without being effectively punished, especially in response to changes in world markets, which are becoming more and more frequent indeed⁸ (Navarra, 2013; Hanlon and Smart, 2014). With respect to both problems, farmers' cooperative organizations may play a role, provided that they are strong enough. However, this is not always the case, since associations are often promoted to enter into partnerships with the private sector, but not always in the conditions of adequate power, and they face trouble when the world market conditions change or when the private partners experience a downturn (examples are brought by Hanlon and Smart, 2014).

In recent years, another challenge of the cooperative promotion organizations in Mozambique has been to "rebrand" cooperatives, to overcome the bad impression that peasants had of cooperatives in the past. More importantly, they have aimed at diffusing a cooperative model that was based on voluntary association and on a strong business-oriented focus. In this direction, a first group of Mozambican cooperatives, together with the US-based CDO NCBA-CLUSA, promoted the creation in 2010 of the *Associação Moçambicana para a Promoção do Cooperativismo Moderno* (AMPCM), a non-profit organization that aimed at "developing and promoting the modern cooperative model (sustainable trade channels controlled by the members) as a sustainable means for the promotion of wealth" (Nguluve, 2012). AMPCM distinguishes between cooperatives and "pre-cooperatives", which are associations that provide services to members, but fail to comply with all the parameters of a proper cooperative and lack registration as cooperatives. Both cooperatives and "pre-cooperatives" can be part of AMPCM, but the latter group is supported in the process of meeting the standards. Additionally, second-level cooperatives and federations can be part of AMPCM, as is the case of the aforementioned UNAC. Nowadays, AMPCM has 31 members. The activities of AMPCM include promoting partnerships and networks at the commercial level for cooperatives and providing technical training and learning programs on cooperative organization, advocacy, representation, and cooperative certification. AMPCM participates in the process of dissemination of knowledge on the new law on cooperatives (see next section) and responds to requests from single entities wanting to build up a co-op. It also assists NGOs wanting to strengthen cooperatives and cooperatives aiming at registering under the new law. AMPCM also emphasizes that the organization provides assistance to cooperatives when they enter in partnership with NGOs and private firms, specifically focusing on cooperative enterprise being recognized and implemented.

3. The legal framework on cooperatives

Cooperatives are regulated by the law 23/2009, called *Nova Lei das Cooperativas*. This law emerged from the actions of Mozambican networks of producer organizations and international civil society, which aimed at defining a new framework for cooperative enterprises. The regulation

⁸ According to the interviews conducted in the framework of this research, both value chains where we entered in some details saw a recent decrease in world prices (milk and cotton).

that was applied at that time was a mix of colonial rule (the Commercial Code of 1888) and rules defined at the time when Mozambique had a socialist model of economic development and was therefore thought of in the framework of a centralized economy⁹. The colonial Commercial Code defined cooperatives in a purely commercial way, which excluded the social and mutual-help function. On the contrary, the law on cooperatives of 1979 defined cooperatives as part of a centralized and protectionist economy, which is currently not relevant in Mozambique (Verde Azul, 2004).

The new law saw its birth following the push of a group of organizations that aimed at modernizing the approach to cooperatives, recognizing that co-ops were suffering from the heavy inheritance of socialist times and were not perceived as free entrepreneurial associations by the producers themselves. This group of organizations included the national federations of farmers (UNAC), a big Maputo-based cooperative of poultry and agriculture production (UGC), and the US-based farmers' CDO NCBA-CLUSA. In the same framework, the Mozambican Association for the Promotion of Modern Cooperatives (AMPCM) was founded¹⁰. The final draft of the law came after a series of workshops carried out by a team of proponents throughout the country and was approved by Parliament and by the entire political spectrum.

This law has four main building blocks: it aims at facilitating the creation of cooperatives and the transformation of associations into co-ops; it underlines the business orientation of these entities to distinguish them from the state-led cooperatives. It states the double nature of the cooperative form between a firm and an association and identifies the specificity of cooperatives with respect to other firms, primarily in terms of the specificity of the cooperative surplus (*excedente cooperativo*) with respect to the profit of conventional firms.

The proponents recognized that a lot of “de facto cooperatives” existed under the name of “associations” throughout the country. These entities were identified mainly by the fact that they shared profits, when associations are non-profit organizations in principle and thus bounded by the non-distribution constraint. One of the aims of the law was therefore to facilitate the transformation of these associations into cooperatives. In this respect, the law states that the private writing of the act of founding in front of a notary is sufficient for the cooperative being constituted. The publication is nevertheless needed and this is still probably a cost that may create some obstacle to co-op formation. No lower limit to social capital is set to lower the barriers for people with a low starting capital endowment. The minimum number of members for the creation of a first-level cooperative is five; the minimum number for the creation of a second-level cooperative is two. Another rule that aims at lowering the access barriers is the absence of a reference to entrance fees (*joia*). The requested minimum subscription of social capital is established by the bylaws, but it is stated that it can be paid (up to 50%) within three years by leaving part of the value of sales in the cooperative.

The definition of cooperative that is provided in Article 2 is given below:

Cooperatives are autonomous collective persons, freely established, of variable capital and composition and democratically controlled, in which the members by means of mutual actions and the sharing of risk oblige themselves to contribute with assets and services to the

⁹ The 2005 new Commercial Code, indeed, explicitly did not modify the previous norms on cooperative enterprises.

¹⁰ Cfr. the following section on the role of NCBA-CLUSA.

exercise of an economic activity for common benefit, with a view to satisfying their economic needs and aspirations and a patrimonial return predominantly realized in proportion to their operations.

A comment about this article by Bachir (2012: 11) underlines that this definition is coherent with the ICA principles but pushes the economic aspect of co-ops a bit forward through the willingness to include the so-called “new generation cooperatives”, whose aim is primarily to increase the value-added amount of the commodities produced by members and to give this return to members. The risk-sharing component is detailed in the comment about Article 6: members will receive a return (a price for his/her good) that depends on market conditions; members themselves will bear (at least partly) this variability.

As underlined in the edition of the law (Bachir, 2012) with comments, the law defines the profits obtained by the cooperative as *excedentes* (liquid surplus) and not as *lucros*¹¹. The idea is that profits are made by each member through the increased value of their products obtained through the cooperative, while the cooperative surplus is “the tacit acceptance of the member not to receive more”¹² (Bachir, 2012: 6). This is meant to give the foundation for a different treatment in terms of fiscal arrangements. The same author defines this as a step for the recognition of the non-profit nature of cooperatives, where the *excedente* is a necessary tool to guarantee the sustainability of the enterprise, not an aim in itself¹³. The background to the distinction between profits and “cooperative liquid surplus” is the definition of *acto cooperativo* (cooperative act), which is the transaction between the cooperative and its members in the fulfilling of the cooperative aim. These are defined as a non-market transaction (*não implica operação de Mercado*, Article 6) and therefore not considered as revenue nor subject to invoicing.

There is a legal reserve constraint on the surplus that is nevertheless quite low; Article 72 states that no less than 5% of annual surplus shall be accumulated into the legal reserve, which has the aim to cover losses. No less than 1.5% of surplus revenues have to be devoted to a reserve for cooperative education and training. The share of surplus that is bound to go to legal reserve suggests that the legislator had in mind that a cooperative is an association of producers whose aim is to gather their production to sell it in a more profitable way, then incorporating individually most of the profits made. If an investment at the cooperative level is needed, it is likely that this has to be financed through a fund collected ad hoc among members.

A co-op can enter into a transaction with non-members and establish joint ventures with non-cooperatives. Returns from the activities with non-members have to be registered separately from transactions with members, since those funds do not have to be returned to members and will be accumulated into reserves. These reserves (and the legal ones) are the non-divisible part of the cooperative funds (Article 77).

A specificity of this law is the possibility to depart from the “one-member-one-vote” rule, according to Article 52:

¹¹ This would be Portuguese for “profit.”

¹² Author’s translation.

¹³ Here we find a different definition of the non-profit nature with respect to the more widespread one linked to the non-distribution constraint of profits.

In the first tier cooperatives each cooperative member has, at least, one vote and the statutes of the first tier cooperative that provide for periodic adjustments of the distribution of capital stock may adopt voting proportional to the operations realized with the cooperative, provided that this proportion does not exceed the limit of one to seven votes.

As can be seen in Bachir’s comment (2012: 36), this rule aims at rewarding the members that contribute more in terms of their activity in the cooperative.

An important point in regards to agrarian cooperatives is exclusive sales. Article 9 states that the cooperative has the right “to demand exclusivity of their members in operations constituting the objective of the cooperative”. Whether this becomes mandatory or not depends on the cooperative’s bylaws.

At present, it is difficult to get into deeper details on agrarian cooperatives, since the decree that provides an application of the general principles of the law is now under discussion. The proposed form of agrarian cooperative is of an entity that, besides commercialization, also has the power to provide service (inputs), produce energy, and offer financial services.

Another work in progress in the negotiation between the cooperative movement and the government is the reform of the tax law. A reduction of different taxes for cooperatives is under discussion on the basis of the specific nature that is stated in law 23/2009. The main point is the reduction of the corporate tax that now is fully paid by cooperatives, apart from agrarian co-ops, which already have a deduction.

4. The selected projects

In Mozambique, our research team selected four cooperative development projects. One is managed by a European CDO, the Swedish We Effect, and three are administered by US-based CDOs: two by NCBA-CLUSA and one by Land O’Lakes (LOL). Four different strategies are applied: the CDP project by NCBA-CLUSA intervenes at the legal framework level; the AgriFUTURO project intervenes at the level of first-level associations, but not within a specific value chain; Food for Progress (LOL) targets first-level organizations with a specific focus on the dairy value chain; and FOFPI (We Effect) is a strengthening program of national organization of farmers.

4.1 NCBA-CLUSA, Cooperative Development Program (CDP) III

CDO	Target country	Project title	Main partners	Period
NCBA-CLUSA (US)	Mozambique (and Kenya)	Cooperative Development Program (CDP) III	Kenya: PAFID NGO, East African Brewery, Kenya Agricultural Research Institute (KARI), Ministry of Agriculture, Livestock and Fisheries, Ministry of Industrialization and Enterprise Development, Ministry of Gender, Culture and Social Services, Ministry of Health, Other: European Cooperative for Rural Development (EUCORD; Belgium). Funding organization: US Agency for International Development (USAID)	2010–ongoing (expected end date for Mozambique: 2020).

A main focus of the CDP effort in Mozambique was to support the implementation of the new cooperative law and regulation and to ensure that local institutions were able to register cooperatives under the new law. While CDP II focused on getting to the approval of the New Law on Cooperatives, CDP III builds on this and aims to work on four fields:

- a. Improved cooperative legal framework
- b. Cooperative education and public outreach
- c. Institutionalization of cooperative advocacy
- d. Development of cooperative models and networks

Through the CDP, NCBA CLUSA has facilitated the debate on a legal and institutional cooperative framework and has promoted the creation of a network of cooperatives. With technical assistance and mentoring from NCBA-CLUSA, the Cooperative Steering Committee, which was overseeing the legal reform effort, has been registered under the association law under the name “Mozambican Association for the Promotion of Modern Cooperatives” (AMPCM), as discussed in previous sections. Its foundation emerged from the need to have a local actor that was able to advocate for legal change and to monitor it.

One of the main tasks of the project and of the AMPCM is to diffuse awareness of the new law, with the aim to promote the creation of cooperatives and to “rebrand” the cooperative idea among rural producers. The message that is passed is that cooperatives are businesses that are built up to meet the economic interests of members. This “rebranding” also includes the training of government officials on the new law and the principles of modern cooperativism.

This project has had a big impact on the current Mozambican framework on cooperatives. This is of course a sign of the importance of working at the policy and regulatory level. A long term perspective is needed when pursuing changes at the regulatory framework level, as they require time and follow-up capacity: six years after the promulgation of the law, work is still in progress on the regulatory decrees and on the tax law on co-ops. In terms of the application of the law and diffusion of the cooperative model, two major goals that have yet to be accomplished are to reduce the costs for registering a cooperative and to increase the advantages of formalizing a cooperative.

This project also focuses on the strengthening of the upper-level organization for advocacy purposes. Upper-level organization may also be important for scaling up the economic activities of lower-level cooperatives. A question that we might ask is whether the two activities may reinforce each other. Thus, it may be a positive step to promote both at the same time (or reinforce the upper-level organizations that also support production).

4.2 NCBA-CLUSA, Competitiveness and Agribusiness Program (AgriFUTURO)

CDO	Target country	Project title	Main partners	Period
NCBA-CLUSA (US)	Mozambique	Competitiveness and Agribusiness Program (AgriFUTURO)	Mozambique: Banco Oportunidade, Banco Terra, Corridor Agro (Mozambican branch of an international organization) Other: Tillers International (US) Funding organization: US Agency for International Development (USAID)	2009–2014

AgriFUTURO is part of a wider portfolio of USAID-Mozambique activities on agrarian development. Together with AgriFUTURO, the project portfolio included: The Support Program for Economic and Enterprise Development (SPEED); The Multi-year Assistance Program (MYAP); Michigan State University support to the Ministry of Agriculture and Mozambique's Research Institute; Development Credit Authority loan portfolio guarantees with Banco Oportunidade de Mozambique; DCA loan portfolio guarantees with Banco Terra; and The Platform for Agricultural Research and Technology Innovation (PARTI).

AgriFUTURO's purpose was to increase the competitiveness of Mozambique's private sector through the development of competitive agricultural value chains, with a main focus on the oil seeds value chain (soya, sesame, sunflower, etc.). Its geographical coverage included the Beira and Nacala development corridors, within the provinces of Nampula, Zambezia, and Manica. The strategy focused on value chain development as a means of creating incentives to expand business development services, build linkages between agribusinesses and financial services providers, and increase and strengthen public-private partnerships (PPPs).

Co-ops were not in principle the entry point for AgriFUTURO, but they became more relevant when the focus shifted during the project from larger agribusinesses to include more smallholder farmers supported through producer organizations. The focus then became on promoting producers' organization (to become cooperatives, when strengthened enough) and to link them to markets. AgriFUTURO also intervened from the private sector perspective: when a company wanted to enter the market in the target value chain, it promoted the linkages with producers.

AgriFUTURO supported producer unions to market their affiliated producers' farm products. The projects linked the producer unions with larger buyers and facilitated marketing transactions. They also helped to create and legalize district-level producer cooperatives that have the legal capability to do business on behalf of their affiliated smaller producer organizations. This has been mainly done through the creation of Farmer Owned Service Centers (FOSCs) and through the creation of partnerships with private firms to train lead farmers and to create promotion plots, for example, low-cost irrigation schemes that are accessible to small farmers.

The PPPs are developed through a matching grant mechanism. The beneficiaries are private agribusiness companies that create Agriculture Service Clusters (ASC) that provide commercial agricultural services to small and medium-scale farmers through the promotion of outgrowing schemes with smallholders. An example is the provision of an equipment grant to Corridor Agro, a Nampula subsidiary of an international agricultural company. AgriFUTURO then created linkages between small farmer organizations and Corridor Agro or similar large agribusiness processors. According to the external evaluation, these schemes allowed increased production and the development of a more rewarding marketing channel with respect to price, although not all small farmers have benefitted from higher prices. Moreover, a partnership with Banco Oportunidade was established to facilitate access to credit for smallholders, supported by the established contracts.

Some questions related to these interventions remain open: first, the choice to provide grants to private companies instead of giving it to smallholders. This is probably due to the initial focus on agribusiness more than on cooperatives, but it may result in a weakened position for farmers. The second concern relates to input supply. This program focused on output marketing, but access to input is a big problem, since prices are too high and suppliers may be very far from producers. The

third issue is the existing conflicts between producers' groups and ASCs in terms of contracts. Farmers have complained about companies not paying the due amounts or not delivering the required inputs. AgriFUTURO has been acknowledged as a good mediator in these conflicts, but Mozambique still faces the problem of contract enforcement, a major issue that favors the strongest contractual party.

4.3 Land O'Lakes, Food for Progress

CDO	Target country	Project title	Main partners	Period
Land O' Lakes Inc. (US)	Mozambique	Food for progress	Mozambique: Banco Oportunidade , Corridor Agro (Mozambican branch of an international organization) Funding organization: US Department of Agriculture (USDA)	2010–ongoing (expected end date: 2016)

LOL has supported two Food for Progress projects in Mozambique, both focusing on the dairy value chain:

1. Food for Progress, Manica Smallholder Dairy Development Program, started in 2008.
2. Food for Progress, Mozambique Dairy Development Program, started in 2012 with a planned end in 2016.

Both received funding from the USDA (US Department of Agriculture).

The context of the dairy value chain in Mozambique that emerges from the baseline studies is characterized by great potential but a very problematic situation: since the 1990s, the country has experienced a severe decrease in both the number and the genetic profiles of dairy cattle. This made the country completely dependent on imports of milk and milk products. In 2012, the contribution of the national production to the total milk and dairy products consumed was the same as in 1992, according to the Strategic Plan for Dairy Development in Mozambique.

Two important characteristics of the dairy value chain are the need for proper respect of the cold chain, which limits the geographical coverage of the milk collection process, and the importance of volumes of production and therefore of scale economies. Both can represent comparative cooperative advantages.

The first Food for Progress project targeted the Manica Province, where the smallholder dairy sector was almost non-existent at the start date of the project (according to the baseline study, the main reasons can be ascribed to the structural adjustment programs and the civil war). The first activity was training and selecting people interested in husbandry; a cow was given to them, and the three cooperatives were organized around milk collection centers.

LOL developed a tool (the AgPrO manual) for field operators to promote. It has been followed in Mozambique both in promoting new groups formation and in strengthening the existing one. The cooperative formation phase occurred at the time the new law was passed, so they entered into the new co-op registration process.

An evaluation of the first project showed important results in terms of the ownership of dairy animals, increased self-employed jobs in milk production, and increased use of animal traction in agriculture. Dairy activities have contributed a significant portion to beneficiary household incomes, with 69.2% of the total monthly income from dairy. Based on these results, the second project has been implemented in some districts of the provinces of Manica, Sofala, and Maputo. In particular, the Strategic Plan for Dairy Development and the government interventions that have been made so far indicate that the Beira Corridor is a priority for the reestablishment of dairy production in the country. In the baseline study, low value chain integration and asymmetry in price transmission are identified as potential problems. Major constraints seem to be the low number of dairy cows and a shortage of skilled dairy technicians.

According to the project documents, the main objectives are listed below:

- Improve the capacity of dairy cooperatives by helping them sell milk in a more efficient marketing channel;
- Improve producers' capacity to keep and grow dairy herd numbers through expanded artificial insemination, village pure bred bulls, community pass-on, and animal health and husbandry training;
- Improve the quality of milk available to local consumers through on-farm hygiene training and improved testing, collection, and storage and processing facilities.

Now, nine cooperatives are promoted in the Manica and Sofala Provinces: they collect milk from the small producers, bulk it, and sell it to the processors.

The provinces present different scenarios: in Manica, the sector was almost non-existing when the first project started, and the cooperative is supporting small-scale dairy producers gathered around milk collection centers; in Sofala, one dairy cooperative dates back to the 1980s (CopoLeite) and is supported together with small-scale producers. Milk bulking can occur in different ways. Some cooperatives have milk collection centers, and the delivery is directly to the processor without bulking in one case; in another case, the cooperative works with an education institution that has bulking facilities. Project monitoring indicates that the existence of milk collection centers is crucial for the success and sustainability of the cooperative.

Up to now, monitoring has highlighted an increased volume of milk and dairy productivity and improved feeding management practices. Since most of the producers carry on multiple activities that are mainly agriculture, attention has been placed on obtaining spillover effects through using cattle also for agricultural work. This was done in partnership with an American NGO (Tillers International) and led to an increase in cultivated land and technology diffusion.

The main challenges come from the exposure to the variability of world prices and the market structure of the dairy value chain in the Manica Province. Since 2012, world milk prices have decreased sharply and this has led to a sharp reduction of the price paid by the processor to the cooperative. The buyer decreased the price per liter while increasing the price of animal feed (that the buyer sells to the producers).

The cooperative weakness in price bargaining is due to the monopsonistic structure of the local market, where only one processing firm exists. This has increased members' side-selling to small local traders. For this reason, the development of processing capacity can be crucial for the strength

of the cooperative and the benefits accruing to smallholders: in cases where the local market structure displays little competition on the demand side, vertical integration strategies can be of crucial importance for the survival of the cooperative.

4.4 We Effect, Farmers' Organizations Fighting Poverty and Injustice Program

CDO	Target country	Project title	Main partners	Period
We Effect (Sweden)	Mozambique (Zambia and Malawi)	FOFPI (phase II) - Institutional Development of UNAC	Mozambique: União Nacional de Camponeses (UNAC), National Forum of Cotton Producers of Mozambique (FONPA), Ministry of Agriculture (MINAG). Funding organization: Swedish International Cooperation Agency (SIDA), Agricord (international network of farmer organizations)	2014–ongoing (expected end date: 2017)

FOFPI is a regional program that has seen two phases of implementation, with an evaluation in between: a 2010–2013 phase and a 2014–2016 phase, which were both implemented in Zambia, Malawi, and Mozambique.

The aim is to strengthen farmers' organizations both in providing services to members and in advocacy activities. The program does not explicitly mention cooperatives for the reason that we have encountered several times in this study, that is, the "bad reputation" inherited in several countries by centralized or exploitative models of cooperative promotion. At the same time, associations that are supported are cooperative-type organizations, since they organize members that promote their living conditions through improving the conditions of their economic activities.

The guiding principle is a rights-based approach: We Effect believes the roots of poverty can, in part, be described as a lack of power and choice. To decrease poverty, it is therefore imperative to increase poor women and men's power to decide over their own lives. In this line, the program targets farmer-based organizations: farmers unions, commodity associations, and land organizations.

The program is structured to address six cluster areas, namely:

1. Organizational development
2. Lobby and advocacy
3. Sustainable agriculture production
4. Market access and business development
5. Access to rural finance
6. Security of land and land rights

The principle followed is to support organizations developing their own plan. Partner organizations develop a strategic plan, and then We Effect provides financial and technical support to actions within that framework. This is aimed at a greater ownership of the strengthening program.

Moreover, the support for organisational development leverages credibility and accountability and allows the partner organization to be autonomous in mobilizing more external funds.

Technical assistance is targeted to the following areas:

1. Monitoring and evaluation
2. Diffusion of the “study circle” technique for learning and elaborating solutions
3. Building institutional capacity for gender equality
4. Financial monitoring and management

The Study Circle (SC) concept developed by We Effect is founded in a Swedish tradition for community development and transformational pedagogy. The basic ideas are to promote democracy, skills development, education, and information dissemination through facilitating the establishment of small groups of small-scale farmers. SC members come together to discuss and learn about a topic of their common interest: they are a small group of 7–16 adult people who meet regularly during a certain period and carry out planned studies under the leadership of an accepted leader. The overall purpose of SCs is to create learning, capacity, and empowerment among smallholder farmers. It has become a tool to identify and train leaders and extension workers in rural development programs.

In each country, FOFPI supports different organization. In Mozambique, within the FOFPI program, We Effect provides support to two organizations: *União Nacional de Camponeses* (UNAC) and National Forum of Cotton Producers of Mozambique (FONPA).

Box 2. UNAC and FONPA

The *União Nacional de Camponeses* (UNAC) is the National Union of Farmers in Mozambique, established in 1987 and registered in 1994, which fights for the active participation of peasants in Mozambique's development process. UNAC prioritizes the family sector and represents peasants and their organisations “to ensure their social, economic and cultural rights through strengthening the peasants’ organisations and participating in shaping governmental public policies and development strategy, in order to guarantee food sovereignty, while considering youth and gender equality” (source: UNAC).

The main areas of activities are strengthening rural communities, access to and control of natural resources (land, water, biodiversity, and seeds), commercialization, rural extension and the political voice of peasants, training and capacity buildings to smallholder farmers, actions concerning climate change (conservation agriculture), advocacy and participation in the definition of public policies, and the promotion of exchange of experiences between peasants.

The *National Forum of Cotton Producers of Mozambique* (FONPA) is a commodity association representing more than 9,500 cotton producers in Mozambique, of which about 750 are women. FONPA’s vision is a “strong, well organized and structured organization, strongly represented at all levels, with national, regional and international partnerships, contributing qualitatively in the lives of cotton farmers” (source: We Effect). Its mission is to defend and promote the rights and interests of cotton farmers in Mozambique, through organization development, support of production, and price negotiations.

In broad terms, it appears that UNAC is more targeted to political representation and advocacy work, while FONPA has a greater focus on price negotiations and the support of production. Both activities are considered necessary for We Effect, and one will prove more effective than the other depending on the context (e.g., the level of competition among buyers in a value chain will determine the success of locally based negotiations to a great extent).

The choice of working at the national level is motivated by the focus of the program on organization strengthening: We Effect aims at working at the level where organizations have more policy initiative; moreover, at the local level, there is the risk of creating fractures and conflict within an organization.

At the beginning of FOFPI phase I, the only partner was UNAC. Through the national farmers' organization, We Effect also provided support to the establishment of FONPA to increase the bargaining power of cotton producers. The support directly to FONPA started in 2013, when they became established enough to carry on the partnership alone. At the end of 2014, the support for UNAC under FOFPI ended to avoid duplicating the actions, since another channel of support for UNAC started through a project (AGIR) that promotes civil society, with a focus on natural resources and land rights.

FOFPI in Mozambique is currently supporting FONPA only. The support program is expected to contribute to increase the incomes of cotton producers who are members of FONPA and to increase household food security and smallholder cotton prices. In general, the program targets all the cotton producing zones (Manica, Tete, Sofala, Zambezia, Niassa, Cabo Delgado, and Nampula) in Mozambique but has a special focus on the Nampula Province, which has the highest potential for cotton production in the country and where more than 50% live under the poverty line (source: FONPA). This program attempts to target smallholder cotton farmers who are potential members of FONPA and those farmers who are already members under the provincial organization structure. In the cotton subsector, the relationship between farmers and cotton companies is regulated under a concession scheme. The concession company has a monopoly right in a province and is required under the agreement to provide extension support and inputs and to have purchase right to all cotton produced within the concession at the end of the season. The minimum cotton price follows a negotiation process, where the actors, such as FONPA (representing small farmers) and the cotton ginners association (AAM), are the main actors in the prices negotiation. The Mozambique Cotton Institute intervenes as facilitator, and the minister of Agriculture (MINAG) participates in representation of the government. Farmers were not present at the beginning of the process in Nampula Province; when FONPA entered the negotiating process, this was reflected through higher prices¹⁴.

FONPA intervenes in a sector that is a regulated monopsony: in this case, the possibility to vertically integrate the value chain is limited by legal factors. Thus, price bargaining is the main activity of a farmers' organization. It seems that FONPA was quite successful in this respect. At the same time, it is possible that diversification of production in such a framework might be a positive factor in when facing declining prices of the major cash crop. To support this process, a stronger organization might be needed, which would be a departure from an organization simply representing sectorial producers, tending more towards a proper cooperative model.

An important element of this program is that it addresses interventions at the national level. A possible advantage of operating on such a scale is that it supports entities that have policy initiatives and advocacy capacity. Moreover, operating on a local scale, in contrast, may incur the risk of creating conflicts or fractures within a cooperative network or farmers' movement.

¹⁴ Interview with G. Forssén, WE Effect, [February 14, 2016]. Now, cotton prices are decreasing for world market reasons, but the effect of FONPA entering into the negotiating process has been positive.

5. Concluding remarks

A frequent concern that emerges in Mozambique is the need to define a new framework for cooperative development. This has been at the core of NCBA-CLUSA activities and has led to the constitution of AMPCM and to the new law on cooperatives. The aim has been to “rebrand” cooperatives and to formalize all the existing entities in the agrarian sector that were similar to cooperatives, but were not recognized as such. Another major concern of these steps was to mainstream the idea of cooperatives as more business oriented. The challenge nowadays is the implementation of the new law and the diffusion of knowledge about it.

It has to be taken into account that the Mozambican rural areas are extremely affected by poverty, the small size of landholdings, and the subsistence orientation of production. Competition among potential buyers of primary products in the value chain is low, while competition among suppliers is high, including from international traders.

In this framework, the new law leaves some open questions. First, the process of publication (the official registration of a cooperative) is complicated, long, and costly. Most people lack ID cards, and the process can take up to one and a half years, with publication costing up to 1,000 USD. According to some actors, some proposals have already been made to modify this process¹⁵.

The law has some features that aim to make cooperatives attractive for middle range producers to avoid the effect of “selection of the smallest”. Still, we know that middle range producers are rare in Mozambique (Hanlon and Smart, 2014). A big challenge may be to scale-up the activities of small producers, which are the wide majority in Mozambique.

The law underlines the need that cooperative farmer members bear the risk of the economic activity. While this is clearly directed to explaining the entrepreneurial nature of the cooperative and the difference with a state enterprise (that was the confusion created in the ‘70s after independence), this may end up underestimating the problem of low risk-bearing capacity of Mozambican small farmers. This is a major issue, and a cooperative model probably has to take into account to some extent the need for loss-sharing mechanisms and protective measures against some risks for farmers.

This issue is also linked to the role of cooperatives that is highlighted in the public policies and public debate: to be partners of agribusiness exporter firms. This is of course an interesting development direction, but without any action taken to protect farmers, producers may be exposed to volatility of world market prices. Both value chains analyzed for this study saw a decrease in world prices in recent years (milk and cotton), and this is threatening the livelihood of small farmers. This in turn raises several issues. One issue is the advantages of integrating single cooperatives in upper-level organizations. Also, there is a high risk in linking a cooperative one-to-one with a private firm; the farmers’ cooperative may become dependent on the firm and may suffer if the firm collapses, as has been the case in the Siwana association (Hanlon and Smart, 2014). In addition, the risk of monopsony is crucial: a cooperative may offer the service of bulking produce to small farmers, but if the market structure is unfavorable (they sell all the production to a single buyer, who is facing no competition), they will have no bargaining power on prices and conditions.

¹⁵ Interview with M. Bachir, lawyer [December 8, 2015].

Changing market conditions is indeed a major challenge. For example, farmers may develop processing capacity on their own, when the market is not competitive enough for price negotiations.

Another challenge is developing the input purchasing side. Inputs are a major issue, mainly when they are high-value inputs (see the first section about fertilizers), as they are unaffordable to producers (e.g., they are too expensive for the average income, and they have to be purchased far away from the field). Agricultural cooperatives must tackle this issue to be viable. This is closely related to credit; access to financial tools is extremely limited in Mozambican rural areas. It may be important to develop a channel of credit cooperatives to make credit and input supply more accessible.

The advocacy side is also crucial. From several analyses, it is clear that Mozambique needs a bigger investment in small and medium-sized agriculture and in rural development. A strong movement of agrarian producers organized in cooperatives may advocate such interventions. As Theron (2010) puts it, “Cooperative autonomy must thus be regarded as representing the litmus test for evaluating the policy and legislative framework. However cooperative autonomy should not be used as a fig leaf by governments to avoid doing more to promote cooperatives”.

A general problem is the project time frame: working on cooperative promotion implies big changes that often are not aligned with the timing of project-like interventions. Projects are bound to produce visible and measurable results. This is often difficult to do when the aim is the strengthening of a local organization. It requires constant support, since important work has to be done at the level of management practices in order to produce good and sustainable results - “it’s a people’s challenge”, as we have been told.