



Working Paper 10/2018

**African Industrial Development and Integration Research Programme (AIDIRP)
II**

**DEVELOPING CAPABILITIES IN MOZAMBIQUE'S FOOD PROCESSING
SECTOR – THE ROLE OF SOUTH AFRICAN FOOD PROCESSING FIRMS AND
SUPERMARKET CHAINS**

Maria Nkhonjera¹ and Reena das Nair²

mnkhonjera@uj.ac.za; reenadn@uj.ac.za

Abstract

Food processing is a high value-added sector which brings opportunities for long-term employment, skills development and technology transfer. This paper considers the potential for developing Mozambique's food processing industry for the purpose of enhancing the country's industrial landscape. With local value addition being relatively weak in Mozambique and, given a sizeable presence of South African multinationals that are investing and trading in the food sector, there are opportunities to create dynamic linkages for the accumulation of productive capabilities for mutually beneficial industrialisation strategies. While more coherence amongst existing initiatives undertaken by the government of Mozambique is required, a variety of initiatives to develop the capabilities of local suppliers need to be developed for a broader regional industrialisation agenda.

JEL Classifications: L52, L66, O14, O19

Key words: Food processing, capabilities, value chains, multinationals, industrialisation, Mozambique

¹ Maria Nkhonjera is an economist at CCRED

² Reena das Nair is a senior economist at CCRED

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1 Introduction

A series of studies on regional value chains as part of the African Industrial Development and Integration Research Programme (AIDIRP) is being supported by the Department of Trade and Industry (the dti), coordinated by Trade and Industrial Policy Strategies (TIPS). The studies aim to assess regional competitiveness and opportunities in selected value chains as part of Southern African Development Community's (SADC) regional industrial development agenda (the SADC Industrialisation Strategy and Roadmap, 2015 – 2063).

In the first phase of the research (AIDIRP I), studies were undertaken by the Centre for Competition, Regulation and Economic Development (CCRED) in partnership with the Zambia Institute for Policy Analysis and Research (ZIPAR) in the sugar-to-confectionery and the cosmetics, soaps and detergents value chains in Zambia and South Africa, and in partnership with IESE in Capital Equipment in Mozambique and South Africa. Sugar and cosmetics studies involved assessments of the key role that retailers such as supermarkets play in getting these products to consumers and the role that they play in building scale and capabilities of suppliers. AIDIRP I also included studies on the growth and development of the oilseeds-edible-oils value chain and fruit value chain in Tanzania and South Africa. This was carried out in partnership with Policy Research for Development (REPOA) in Tanzania. The second phase of the project (AIDIRP II) looks at cross cutting competition issues in the region.

This study, also part of the second phase, draws on insights from these studies, as well as from previous research done on regional integration and the impact of the spread of supermarkets³. The study aims to assess opportunities for developing capabilities in Mozambique's food processing sector and the role that South African food processing firms and supermarket chains can play in this.

The food and beverages industry in Mozambique can contribute significantly to the country's industrialisation and employment generation. The food sub-sector on average contributes about 20% towards manufacturing production (Santos, Gallardo and Filipe, 2017). In 2016, agriculture and agro-processing industries such as sugar, cereal milling and beverages (particularly beer), were already major sources of growth of GDP in addition to energy and mineral sectors (National Institute of Statistics, 2016).

However, food consumption more broadly remains highly import-dependent. This has been attributed to the high production costs of food products in Mozambique (USAID, 2015). Poor road infrastructure and high transport costs tend to limit the movement of foods impacting on production costs. Additional bottlenecks include lack of investment in infrastructure, various prohibitive regulations, lack of financial support and strong competition from imports.

An analysis of the trade data of processed food products however shows that some industries in Mozambique, such as beverages, spirits and vinegar, edible fruit and nuts, milling and, to a smaller extent, sugars and sugar confectioneries, have grown their exports in the past five years. Exports can be seen as an indicator of capabilities, as it shows the ability to become

³This includes three pilot studies by CCRED, CSID, AIAS and UNZA on: inputs to infrastructure in Mozambique ([Baloyi and Zengeni, 2015](#)), mining machinery in South Africa and Zambia ([Fessehaie, 2015](#)); soy value chain in South Africa, Zimbabwe and Zambia ([Takala-Greenish et al., 2015](#)). It also draws on lessons from four UNU-Wider studies on regional integration and growth: supermarkets ([Das Nair and Chisoro, 2015](#)) and ([das Nair and Chisoro, 2016](#)); animal feed and poultry ([Ncube, Roberts and Zengeni, 2016](#)); mining policy ([Fessehaie, Rustonjee and Kaziboni, 2016](#)); regional transport ([Paelo and Vilakazi, 2016](#)).

competitive in regional, and potentially, international markets, providing a stepping stone to further industrialisation (das Nair, Nkhonjera and Ziba, 2017).

Within these, the beverages, spirits and vinegar category and fruit and nut appear to have potential for further growth and development, in addition to promoting significant local linkages. Mozambique has a rapidly expanding soft drinks and beverages market. Coca-Cola SABCO is the largest supplier of carbonated soft drinks market (87% of total sales), but local medium-sized firms have also begun operations in this market over recent years (Sutton, 2014). Also within the beverages sector, in the beer brewing industry, Cervejas de Mozambique (CDM) - a subsidiary of AB InBev recently made substantial investments in capacity expansion, introduced dynamic fermentation technology and also new beer products using locally sourced inputs. In the wines and spirits sub sector, South Africa is a key importing market of Mozambican wines and spirits and is also a supplier of packaging products for this industry and the food industry at large.

Mozambique has a long history of capabilities in the fruit and nut industry, particularly in cashew nut production and processing. The two major firms (Moloque Agro Processing and Condor Caju) operating in this industry possess the necessary capabilities to export to the USA, Europe, Middle East and South Africa (Sutton, 2014). There are however efforts in place to revitalise the industry, not only to increase production but also the proportion of processing carried out in Mozambique. Growing regional markets could further boost demand for cashews.

There is therefore potential to expand processing activities in these value chains in Mozambique, especially given links to South African multinationals (MNCs), investments and trade. Developing processing capabilities and upgrading of these value chains in Mozambique is mutually beneficial for both Mozambique and South Africa. In Mozambique, it develops local capabilities and promotes structural transformation to higher value products, while South African MNCs (both food processing firms and retailers) firms can benefit from local procurement of their inputs, rather than relying solely on imports.

Developing these industries however involves more than just support and building capabilities at the production level of the value chain. Successful retail sales of these products are critical, and bottlenecks at this level can limit growth and development of the entire chain. A growing route to market for these products are supermarket chains. South African supermarket chains operate in Mozambique and have recently started expanding (albeit slowly relative to growth in other SADC countries) (das Nair and Chisoro, 2016). The largest food processing company in Mozambique, for example, Companhia Industrial da Matola (CIM) is widely diversified and manufactures a range of milling products and sugar confectioneries supplied to the South African retail chains in Mozambique (Sutton, 2014). CIM is however able to leverage off its South African ownership and also predominantly sources raw inputs. Greater local production capabilities also benefit supermarkets as they can reduce reliance on imports.

Based on the above, the key research questions of the study are:

- How has value addition and capabilities development evolved in food processing industries in Mozambique and which food processing industries show potential to develop/upgrade based on recent trade trends and an evaluation of capabilities?
- What are the main opportunities and challenges faced by processing firms in selected food processing value chains in Mozambique?

- What is the role of multinational and supermarket chains in shaping and developing the selected food processing value chains? What is the role of South African firms in particular?
- What concrete plans can be identified at the sectoral level for mutually beneficial collaborative industrialisation strategies for these value chains?

Approach and methodology

The research questions are evaluated under a global value chains framework, adapted for regional dynamics, to understand opportunities and constraints to regional industrialisation in the beverages, spirits and vinegar sector; and edible fruit and nuts sector. The role of supermarkets as key routes to market is an integral part of this value chain approach.

The study analyses both primary and secondary data. Quantitative secondary data is collected from government central statistical offices, and international organisations (World Bank data, Trade Map etc.) and other data sources (such as Bank of Mozambique and National Statistics Institute) in order to evaluate investment and trade patterns. Qualitative secondary information is sourced from publicly available information from policy documents, annual reports and previous research.

Primary data/information was collected through questionnaires and in depth face-to-face interviews with supermarkets, manufacturers in the selected food processing value chains, importers and wholesalers. Firm-level data is a key component of this research. Other key stakeholders such as industry associations, government departments and development and investment agencies in Mozambique were also key in informing the study. A total of 22 interviews were conducted in Mozambique in 2018 (Annexure 1).

Qualitative data is also used to map the selected value chains in order to identify and analyse where the core competences of the firms lie. The growth and development of the selected value chains – beverages, spirits and vinegar; and edible fruit and nuts, for which supermarkets are a key route to market is considered. The flow of inputs – goods and services – in the production chains is mapped to show the constraints and opportunities along these value chains.

The rest of the paper is organised as follows: Section 2 briefly presents the theoretical framework of global/regional value chains, which is the main lens through which the research questions are addressed. Section 3 provides an overview of the retail landscape in Maputo Province, the only province in which there has been significant growth of supermarket chains. Section 4 evaluates industrial development policies in Mozambique to contextualise the prospects for food processing in driving industrialisation. Section 5 provides an overview of trade and investment patterns between South Africa and Mozambique to establish the linkages and potential for supporting value addition and capabilities development. Section 6 presents the interview findings, exploring the opportunities and challenges for developing capabilities in food processing. In the final section, the paper reflects on the key issues emerging from the research and sets out policy initiatives.

2 Theoretical framework

Global value chains framework and the development of capabilities

The literature on Global Value Chains (GVCs) presents a useful framework for understanding the dimensions of productive transformation. Insertion and participation within the global

economy has been a key determinant of economic growth in a number of countries. This is explained through increased trade, investment, and competition which provide mechanisms for firms to improve their efficiency (Bamber, Fernandez-Stark, and Gereffi, 2012). The GVC framework is equally applicable for understanding how local and regional value chains (RVCs) operate as a path for Africa's insertion into GVCs (Morris and Fessehaie, 2014; Farole, 2015).

The scope of the GVC framework also considers broader industrial policy issues with reference to industrial upgrading and governance - taking into account interests, power and the role of lead firms (Gereffi, 2014). GVC literature emphasises that the key to increased competitiveness is to upgrade – adding value to production or shifting to higher value activities. The upgrading process includes distinct changes with regards to a firm's participation in a value chain and can include product, process, functional and chain upgrading (Bamber et al., 2012), and is important for understanding structural change and industrial development. However, production and trade networks are generally characterised by unequal distribution of rents (Gereffi, Humphrey, Kaplinsky and Strurgeon, 2001). The distribution of rents is linked to market power, dynamics of production networks and governance structures of value chains. The governance of chains is therefore central for GVC analysis and determines success of firm entry and participation, and the potential for upgrading.

A key insight from limited past research on RVCs in southern Africa is that they are largely underdeveloped, including in the agro-processing sector (Farole, 2015; Chisoro-Dube et al., 2018) TNZ). The development of agribusiness is particularly constrained by disproportionate scale between South Africa and the rest of the region, trade barriers and inadequate national and regional competition to stimulate technology upgrading and regional development (AFDB, OECD and UNDP, 2014). In addition, the agro-food sector is increasingly becoming dominated and concentrated amongst large, often multinational, lead firms (Cramer and Sender, 2015; Greenberg, 2017). This affects the viability and participation of smaller players within these value chains. Given these dynamics, it is important to assess the prospects for participation and upgrading (and by extension industrial development) in the agro-food processing sector, also considering the strong linkages to agriculture and other sectors and activities in the economy.

Significance of the growth of supermarkets

There has been growth in the number and spread of supermarkets, particularly South African supermarkets, into the rest of the southern African region over the past two decades (Reardon and Weatherspoon, 2003; Reardon and Hopkins, 2006). This comes in the context of increased intra-regional foreign direct investment (FDI), which is part of and follows trade and financial liberalisation in many developing countries in the 1990s/early 2000s. Several other factors have been attributed to this growth, including rising urbanisation, increased per capita income, rise of the middle class, and economies of scale and scope arising mainly from efficient procurement and distribution systems (Tschirley, 2010; Humphrey, 2007).

The formats and locations of supermarkets in southern Africa have also evolved over the years, moving away from serving high-end affluent consumers in urban areas to penetrating low-income rural communities. The expansion of supermarkets has important consequences for consumers, suppliers, and the competitive landscape both within each country as well as across countries in the region.

Supermarkets can offer consumers cheaper prices relative to local independent retailers given economies of scale and global/regional sourcing strategies. Modern supermarkets offer

consumers the supplementary service of arranging a wide assortment of products selling concurrently in a convenient setting in a single location with a focus on quality, service, 'one-stop' shopping, and an overall shopping experience (Haese and Van Huylenbroeck, 2005; Basker and Noel 2013; das Nair and Chisoro, 2017).

Although the growth of supermarkets has provided wide-ranging benefits to consumers, it has also imposed challenges on the ability of local suppliers to enter and participate in the economy. Supermarkets are often a key, and growing, route to market for suppliers of food and household consumable products. The literature highlights some of the challenges associated with the interactions between supermarkets and suppliers. First, procurement trends of supermarket chains, which are increasingly adopting centralised distribution centres shrinks the supply base by using only preferred suppliers (Humphrey, 2007). Large supermarkets also impose high private quality and processing standards on suppliers, which makes it harder for small scale suppliers to effectively adhere to, as well meet the required scale to compete with imports. (das Nair and Chisoro, 2017). As a reflection of their buyer power, large supermarket chains are further able to influence pricing in their trading terms by controlling listing fees, rebates, advertising and slotting allowances, promotion fees, payment period terms, as well as new store openings fees (Reardon and Gulati, 2008; das Nair and Chisoro, 2017). These factors have important implications on the sustainability and ability of local suppliers, particularly small food processors with regards to meeting cost, volumes, consistency and quality requirements of supermarkets (Dakora, 2012).

The multinational nature of supermarket chains further opens up much larger regional markets for suppliers providing opportunities for them to participate in the growth process. This allows suppliers to attain the necessary scale which can potentially make them competitive in national, regional and international markets. Supermarkets therefore have the power to shape value chains and influence growth and investment decisions of suppliers (and linked sectors like transport & logistics). Their procurement methods and requirements have important implications for the participation and success of suppliers. Supermarkets can thus be a strong catalyst to stimulate food processing and light manufacturing industries in the SADC region.

3 Industrial development policies in Mozambique

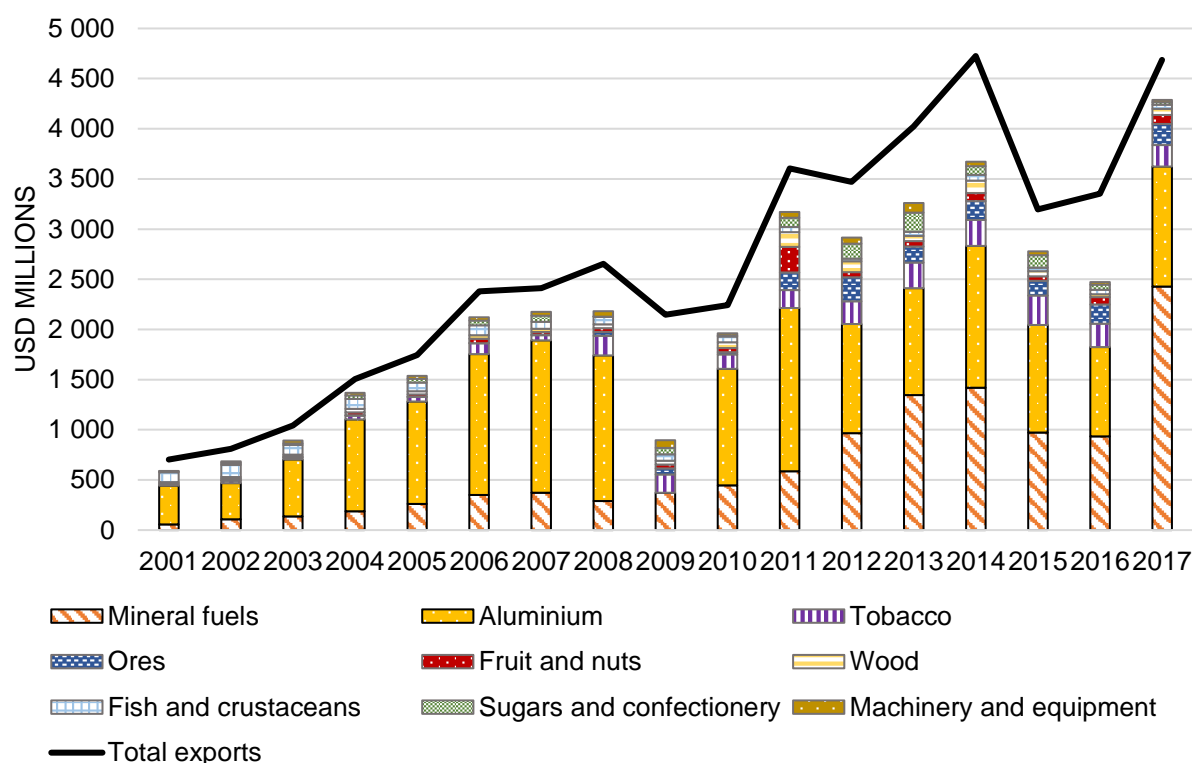
A review of policy frameworks specific to the food processing sector and industrial development patterns more generally in Mozambique is essential to identify policy priorities and strategies for industrialisation. It is also important to understand the factors behind the effective (or lack of) implementation of existing strategies and overall opportunities for regional integration.

Mozambique's main opportunities for economic development have historically been in its mining resources and the production of primary agricultural products (Krause and Kaufmann, 2011). The agro-industry is identified as important for rural industrialisation, inter-sectoral linkages, employment and the diversification of production and trade (Castel-Branco, 2002). The Mozambican economy is also characterised by semi-processing of primary products for exports and the production of internationally uncompetitive goods.

A study by Langa, Mondliwa, and Nkhonjera (2018) suggests that these claims still hold. First, Mozambique's international trade is not well diversified and remains highly concentrated on primary products (aluminum, mineral fuels and ores) linked to capital intensive megaprojects (Figure 1) (see section 5.1). This is followed by agricultural commodities and food products including tobacco, sugar, wood, fruit and nuts. The highest compounded annual growth rates

(CAGR) for Mozambique's top exports (over the 2001-2017 period) are in ores (50%) and mineral fuels (26%), although ores have grown from very low base and are not large relative to aluminum and mineral fuel exports. In food products, the highest CAGRS are in fruit and nuts, fish and sugars and sugar confectionary which grew at 12%, -5% and 8% respectively.

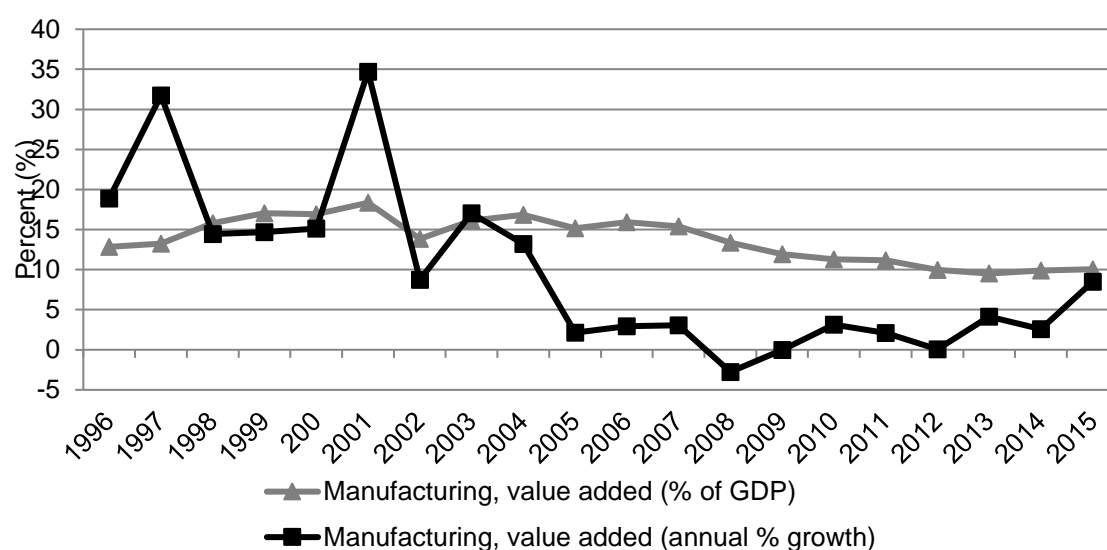
Figure 1: Composition of Mozambique exports, 2001 – 2017



Source: TradeMap

Manufacturing value add (MVA) (Figure 2) has only experienced growth where there has been an injection of foreign capital into megaprojects. This includes substantial FDI in sugar and beverages industries (in 1997) and the Mozal aluminum smelter in 2001, and again in 2003, as depicted by the spikes in the chart. Following this period and up to 2015, MVA share in GDP growth in Mozambique has been in continuous decline. In manufacturing production, aluminium processing generates the largest share of MVA (43%), followed by the food and beverages industry (36%) (Cruz, Guambe, Marrengula, and Ubisse, 2016). In general, Mozambican manufacturing companies typically produce products using basic technology and are excessively dependent on natural resource goods. Diversification of the Mozambican economy therefore remains weak (Cruz et al., 2016; Langa, 2017).

Figure 2: MVA share of GDP and growth rates in Mozambique, 1996 to 2015



Source: World Development Indicators (2017)

A key challenge for Mozambique is therefore increasing value add to exported products (particularly mineral and agricultural) by linking local firms to export processes and diversifying production for both the export and domestic market. In addressing these and other challenges, industrial policy is faced with a complex set of structural constraints, such as high cost of capital, shortage of labour force skills, lack of coordination between state institutions promoting industrial development and obsolete technology, that together result in the economy's low productivity and competitiveness (Krause and Kaufmann, 2011). Mozambique is also constrained by underinvestment and a lack of access to finance, resulting in a lack of infrastructure which hinders access to markets (in so far as the agricultural sector is concerned) (Deloitte, 2016).

Overview of industrial policy in Mozambique

According to the government, priority sectors for the industrialisation of the Mozambican economy include: (1) agriculture and fisheries, (2) manufacturing, (3) mineral extractive industry, and (4) tourism. Mozambique has developed strategies for industrial development aimed at structurally transforming the economy. These strategies are found in government gazettes and are outlined in Table IPS97. The '*Industrial Policy and Strategy*' (IPS07) in particular, approved in 2007, was built from the IPS97 with the intention of stimulating production and productivity and creating an environment conducive to the adoption of new technologies. It aims, amongst other objectives, to ensure there is the development of a more competitive industrial base that is less dependent on external resources (Cruz et al., 2016). It is generally targeted at (i) creating value from natural resources; (ii) increasing industry contribution to the balance of payments; (iii) growing the supply of basic goods, and; (iv) promoting labour intensive technologies.

Table 1: Key industrial development strategies for Mozambique

Industrial Development Strategies
Poverty reduction strategy
Industrial policy and strategy
Investment promotion strategy
SME policy strategy
Strategy to improve the business climate

Source: Krause and Kaufmann (2011) and Ministry of Industry and Commerce (2018)

Mozambique's industrial policy strategy outlines a number of selective measures for intervention. It particularly cites the need to promote the expansion of agro-industrial and labour-intensive manufacturing activities. The food and agro-industry is highlighted as a sector in which agricultural potential can be maximised and one that provides for multi-sectoral linkages, employment, import substitution and the creation of a diversified basket of exports (as was shown in Figure 1, Mozambique's export basket is not well diversified).

The IPS07 further makes reference to the promotion of vertical and horizontal integration of the food sector. After the metal works sector, the food and beverages industry generates a large component of manufacturing production, and as mentioned the food sub-sector makes up about 20% of industrial production (Santos, Gallardo and Filipe, 2017).

The government of Mozambique has considered the following products as important in terms of output for its food processing sector: beer, sugar, processed cashew nuts, carbonated soft drinks, tea, frozen shrimps, maize meal, wheat flour, cooking oil and bread.⁴ Food processing, as mentioned, is seen as offering opportunities for further value addition, labour absorption and industrialisation.

While there is an overall industrial policy strategy, including in food processing, there is limited detail on how specific actors or coordination platforms are to implement these strategies. Industrial policies in Mozambique have for the most part not been implemented and sector-specific industrial policies have also not been very successful (USAID, 2014; Cruz et al., 2014). Mozambique's industrial policies are alleged to have been more reactive to the interests of large foreign investors and this has limited the implementation of a more integrated industrial policy with economy-wide benefits (Krause and Kaufmann, 2011; Langa et al., 2017).

Despite the limited outcomes of the IPS97 (and by extension IPS07) (Castel-Branco, 2002), light manufacturing emerged during these periods which included the development of large scale entities from 100 percent foreign capital, such as SAB Miller (now AB InBev) and Coca-Cola i.e. a large inflow of FDI from MNCs (Cruz et al., 2016). This presumably has had some impact on other levels of the value chain and is discussed further in later sections.

4 Supermarket chains and the retail landscape in Mozambique

Supermarket chains are a key route to market for food and processed foods. Although there is very little publicly available information on the retail landscape in Mozambique, other than on the operations of the South African chains. Most of the supermarket chains operate in Maputo, with minimal activity in other parts of the country, although large chains like Shoprite Holdings have for some time now been expanding into other provinces.

⁴ Interview with government institution on 15 May 2018

There is also a much bigger proportion of independent and/or informal retailers than supermarket chains in Mozambique, including formal Cash and Carry. Recheio Cash and Carry, for example, has 26 stores, located in 10 locations. Portuguese owned Mega Cash and Carry, has warehouses located in Maputo and Sofala province, with their largest distribution channel being hotels, coffee shops, restaurants and bars.⁵ Although an independent retailer, and not a supermarket, their scale of bulk procurement is large.

Small supermarkets (referred to as 'mercearias') are mostly independent and made up of Asian investors (predominantly from Pakistan and China). These take on two different forms of ownership – one of which is historically family owned businesses and the other is new companies setting up in Mozambique (these are still gaining traction).⁶ There is also a large footprint of informal supermarkets which are dominated by small, mainly West African, investors (Rwandese, Nigerian and Burundian).

Overview of South African supermarket chains operating in Mozambique

The supermarket retail landscape in Mozambique is dominated by South African supermarket chains. This is a growing sector, especially with the entry of Choppies Enterprises from Botswana, as well as Central from Portugal.⁷

Although at a lower rate than in the rest of SADC, there has been entry and expansion of South African supermarkets in Mozambique, with Shoprite opening five new stores over recent years (Shoprite Annual Report, 2017). At the time of writing this report, Shoprite was preparing to open its second store in Nampula province (North of Mozambique) and its twentieth store in Mozambique. Shoprite's operations are equally split between South and North of Mozambique, with 10 stores in each region.⁸

Premier Super SPAR in Mozambique (a franchise of South Africa's Spar brand), on the other hand, has five stores (in addition to a cash & carry, industrial bakery and several warehouses) located in Maputo province. The retailer opened up two new stores in 2017 alone. SPAR is looking at expanding into other provinces in Mozambique, although their primary goal is to cover the Maputo jurisdiction before branching out.⁹

American-owned Walmart's Game also recently launched a store in Maputo. South African supermarket chains in Mozambique are largely serviced through distribution centres located in South Africa (typically consisting of warehousing, cold storage and packaging stations).

According to SPAR (SPAR Annual Report, 2017) and Shoprite (Annual Reports 2008 and 2009), supermarkets are generally supported by sufficient local infrastructure in Mozambique and the prospects for further growth appear positive. On the contrary, interviews with supermarkets cite poor infrastructure, particularly transport infrastructure, as a key bottleneck in Mozambique. In addition, supermarket chains operating in Mozambique have identified political instability, the unavailability of foreign exchange reserves (SPAR Annual Report, 2016) and lack of local suppliers with the required scale and capabilities as important challenges.

⁵ <http://recheio.co.mz/en/home/>

⁶ Interview with food distributor on 15 May 2018

⁷ Ibid

⁸ Interview with supermarket on 24 May 2018

⁹ Interview with supermarket on 18 May 2018

Supermarket chains have noted that the suspension of IMF and World Bank loans to Mozambique have had a negative effect on the food sector in 2017, resulting in almost all food products being imported and almost doubling of food prices (Shoprite Annual Report, 2017). For a donor aid dependent country, this has indeed had a crippling effect on the economy and food sector. Despite a weaker local currency, however, the demand for products produced in South Africa continues to grow (Shoprite Annual Report, 2017). There is a clear preference for imports or foreign brands on supermarket shelves in Mozambique, although supermarkets would ideally want to be able to source locally (for reasons that are discussed throughout this paper).¹⁰

South African supermarkets in Mozambique will therefore be assessed in terms of the role they play in shaping or developing the food processing sector and more specifically, local suppliers in Mozambique.

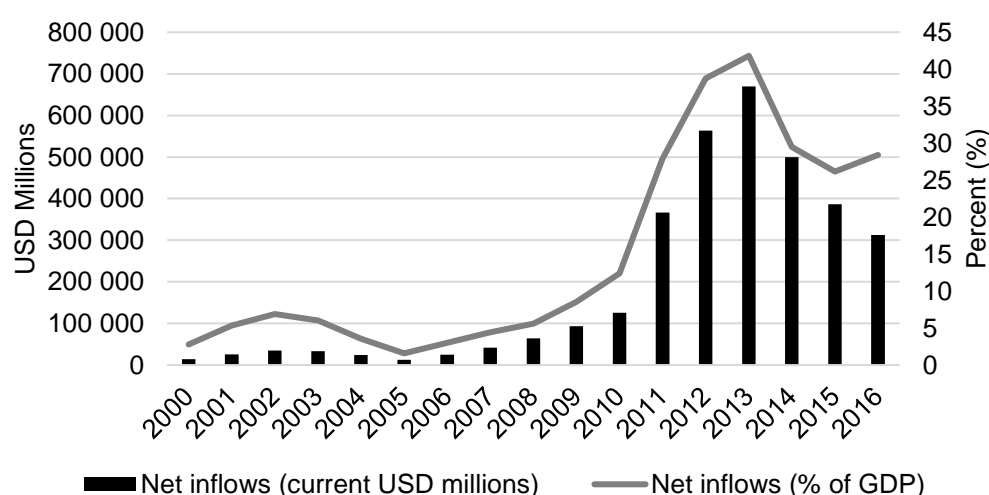
5 Overview of investment and trade flows in Mozambique

This section looks at patterns of integration between Mozambique and South Africa. It highlights investment and trade linkages which show a large portfolio of Mozambique's FDI flowing from South Africa; as well as South Africa being a key trading partner for Mozambique.

5.1 Investment patterns

The sectoral composition of FDI inflows to Mozambique has largely been in export-oriented extractive sectors (mega projects) (Langa et al., 2018). These capital-intensive subsectors (aluminum and coal) demand high levels of recurring investments and are linked to Mozambique's MVA patterns seen in Figure 2. In general, the mining, energy and construction sectors (support rail, port and road infrastructure) have especially been attractive sectors for FDI in the 2000s. FDI has therefore not diversified away from this base of sectors that have limited value addition. In Figure 3 below, which shows Mozambique's inflows of FDI, the spike between 2010 and 2013 (FDI boom period) is explained by investments in Mozambique's oil and gas sectors.

Figure 3: Mozambique net inflows of FDI



Source: World Development Indicators

¹⁰ Ibid

Mozambique's weak productive base coupled with a dominant South African economy has led to a pattern of integration where South African FDI and imports (see section 5.2) have dominated the Mozambican economy (Castel-Branco, 2002) and continue to do so. South Africa has been, over the last two decades, one of the largest investors in Mozambique. Between 1997 and 2014, South African FDI accounted for 27.4% of total approved FDI in Mozambique. Sectorally, 65% of these projects were related to the Mozal aluminum smelter and the Sasol Gas pipeline, with agriculture and agro-industry targeted 18%, and tourism 8%, respectively.¹¹ In 2011, particularly, during the commodity price boom, extractive industries accounted for just over 80% of total FDI inflows catalysed by mega-projects.

Mozambique has also seen a rise in FDI in non-mega projects (including agriculture and industry) which in part reduces its reliance on imported food products (OECD, 2013). Table 2 shows that the sectors attracting FDI include the agro-food industry. In 2010 for example, large South African investments in Mozambique included expansionary capital investments in the Xinavane and Mafambise sugar mills in Mozambique by Tongaat Hulett and investments by Illovo, both of which control three out of the four sugar estates in Mozambique. At present, Tongaat-Hullett is investing in additional sugar refining capacity in Mozambique. Additional investments are in South African owned breweries, and soft drinks production controlled by Coca-Cola SABCO (Castel-Branco, 2015). In cereal milling, Namib Management Group which is part of CIM (acquired by Premier FMCG South Africa who holds a majority stake), controls the largest cereal milling complexes. Although these sectors are outside the minerals and aluminum sectors they represent large projects high characterise demand for industrial food activities.

Table 2: Investors in Mozambique's key food and beverage sectors

Sub-Sector	Investing company	Investing country
Sugar	Illovo and Tongaat Hulett	South Africa
Beer	SAB-Miller	South Africa
Soft drinks	Coca-Cola SABCO	South Africa
Cereal milling	CIM/ Premier FMCG	South Africa

Source: Castel-Branco (2002)

Linkages between large South African firms (operating in megaprojects) and small, local enterprises in Mozambique have however been weak or non-existent (see Castel-Branco, 2002 and Langa et al., 2018). The absence of dynamic linkages has resulted in minimal industrial capabilities being developed across Mozambique's local industries.

An OECD (2013) report recognises that economic sectors outside of mining such as agriculture and agro-industry could be a stimulus for growth in terms of employment potential and economy-wide linkages in Mozambique. A strategy towards export diversification therefore requires investment promotion in non-mining industries. Food processing is seen as an investment priority for enabling this growth, and targeted measures to assist SMEs to tap into niche export markets. The trade flows of Mozambique are discussed next.

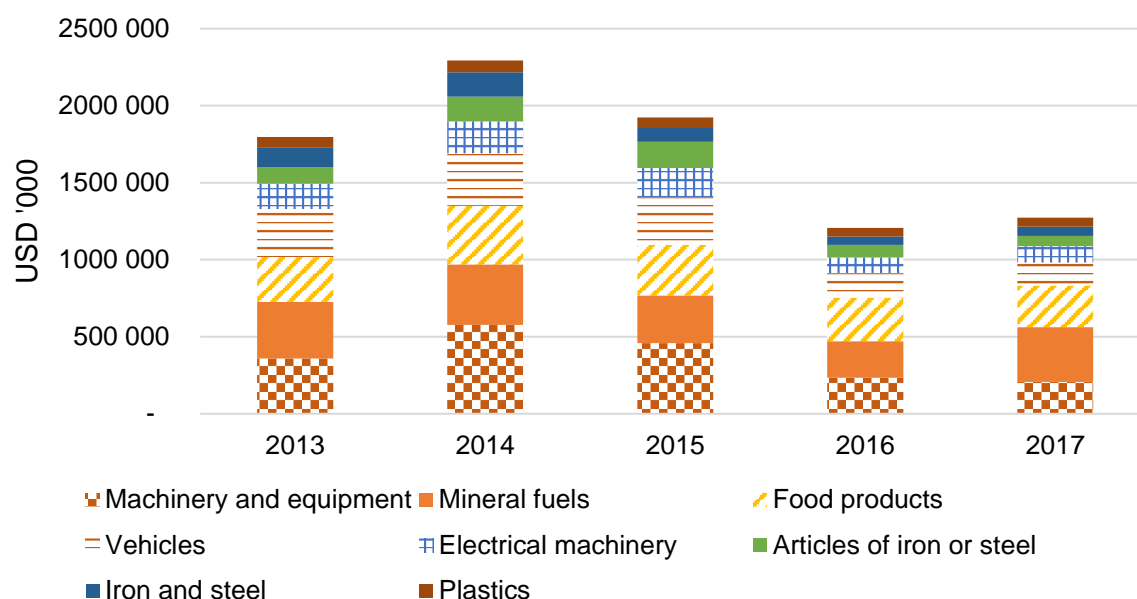
5.2 Trade flows

The SADC region is a key trading partner for Mozambique – for both imports and exports. In 2017, the region made up 20% of Mozambique's total export trade, whilst 30-35% of the country's imported products over the last 5 years have been sourced from the region.

¹¹ Based on World Development Indicators (see Langa et al., 2018).

Figure 4 below shows Mozambique's key imports from the region. Imports of machinery and equipment (predominantly from South Africa) have been the single largest import category. This is followed by imports of mineral fuels (including electrical energy, coal and gas) that feed into megaprojects. A range of food products make up the third largest component of imports - an indication that the region is becoming an important source for food products. However, the majority of food products are sourced from South Africa, with some notable amounts from Namibia, Swaziland and Mauritius for specific products. Other smaller import categories include vehicles, electrical machinery and iron and steel.

Figure 4: Mozambique top import categories from SADC, 2013-2017



Source: TradeMap

Table 3 shows the growing imports for some primary and processed food products from the SADC region. These products are largely sold by supermarkets, wholesalers and other retailers, which represent key routes to market.

Imports and exports of typical items on supermarket shelves can provide useful insights on developments in industries that supply supermarkets. Evident from Table 3 is growing imports¹² of foods such as milling products and (raw) cereals with CAGRs of 17% and 14% respectively. Imports of vegetables have also grown, at a CAGR of 15% between 2013 and 2017.

¹² Other food products imported by Mozambique, in smaller amounts include meat, (HS'02), oil seeds (HS'12), animal or vegetable fats (HS'15), residues from the food industry (HS'23), coffee and tea (HS'09), preparations of meat and fish (HS'16), Cocoa and cocoa preparations (HS'18) and fruit and nuts (HS'08)

Table 3: Mozambique's food imports from SADC

HS Class.	Product	Value (USD, thousands)		CAGR (2013-2017)
		2013	2017	
HS03	Fish and crustaceans	78 472	53 851	-9%
HS22	Beverages	52 472	33 844	-10%
HS04	Dairy products	31 437	35 180	3%
HS10	Cereals	19 553	32 848	14%
HS21	Miscellaneous edible preparations	28 913	22 199	-6%
HS07	Vegetables	17 231	30 140	15%
HS20	Preparations of vegetables, fruit and nut	19 730	18 579	-1%
HS17	Sugar and sugar confectionary	19 070	6 471	-24%
HS19	Preparations of cereals	14 965	17 479	4%
HS11	Milling products	9 363	17 683	17%

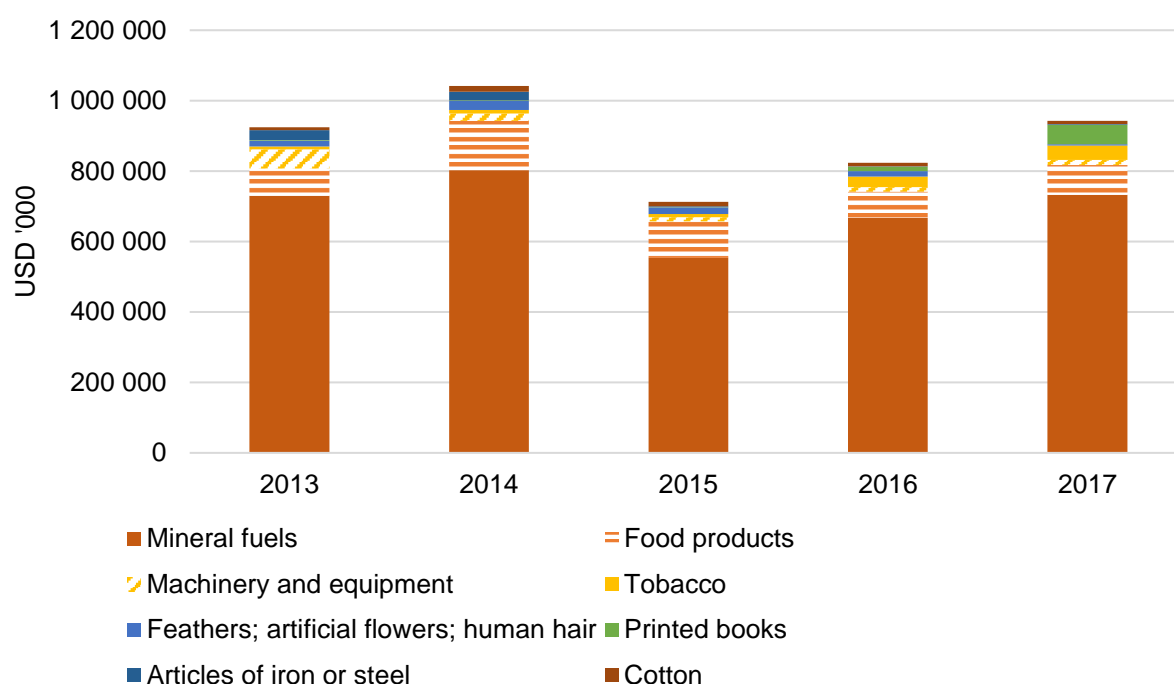
Source: Trademap

Imports of food products (in terms of absolute value) however decreased slightly in 2017 (for most products shown in Table 3 above). The Table shows that imports of fish, beverages and sugar in particular, recorded negative growth rates between 2013 and 2017. There have been clear declines in imports in industries where there has been heavy FDI, such as sugar and beverages, indicating that production is occurring locally in Mozambique. Although for specific refined sugars MNCs import from the region, Mozambique's sugar industry is also largely protected from imports (see section 6). This could also in part be explained by the country's attempts to reduce its reliance on food imports in an effort to increase local production, but this has not necessarily led to export diversification or growth in sugar confectionary products (as earlier mentioned in relation to Figure 4 above).

South Africa is a key trading partner for Mozambique's imports, making up almost 30% of its basket in 2017. This is followed by the United Arab Emirates, China and the Netherlands. To some extent Namibia and Thailand are also key trading partners for fish products and cereals, respectively.

In terms of exports (Figure 5) mineral fuels make up by far the greatest proportion (about 70% in 2017) of Mozambique's export composition (as also shown in Figure 1 above). This is followed by food products which make up the second largest (9%) export category into SADC markets, followed by tobacco products accounting for 4% of exports in 2017.

Figure 5: Mozambique top export categories into SADC, 2013-2017



Source: Trademap

Certain product categories have seen significant increases in exports (Table 4). These include the edible fruit and nuts category, beverages, spirits and vinegar category and to a lesser extent (given relatively low export values) – cereals (which include rice, wheat, maize, sorghum and barley).¹³ Although the most significant increase in export value between 2013 and 2017 is found in cereals (from a very low base), imports of cereals have also increased significantly. Mozambique's high dependence on grain imports is primarily a result of current production levels not meeting the quality and price requirements for domestic industrial users (see section 6.2.7).

¹³ Other food products exported by Mozambique, although representing relatively small export values include coffee and tea (HS'09), products of animal origin (HS'05), live animals (HS01), miscellaneous edible preparations (HS'21), dairy produce (HS'04), preparations of meat and fish (HS'16), meat (HS'02) and cocoa and cocoa preparations (HS'18)

Table 4: Mozambique's food exports to SADC, 2013 and 2017

HS Class.	Product	Value (USD thousands)		CAGR
		2013	2017	
HS08	Fruit and nuts	18 907	38 362	19%
HS22	Beverages, Spirits and vinegar	4 487	13 943	33%
HS23	Residues from food industries	9 100	3 587	-21%
HS03	Fish and crustaceans	8 172	5 553	-9%
HS11	Milling products	4 555	2 335	-15%
HS12	Oil seeds	14 634	1 874	-40%
HS07	Vegetables	6 914	4 125	-12%
HS17	Sugar and sugar confectionary	4 761	3 826	-5%
HS10	Cereals	544	3 616	61%
HS15	Animal or vegetable fats and oils	3 595	3 642	0%
HS19	Preparations of cereals	797	3 692	47%

Source: TradeMap

Key industries that have experienced export growth, such as beverages and preparations of cereals (which include baked goods, pasta and breakfast cereals), are dominated by South African MNCs that have invested in these sectors in Mozambique (see section 5.1). These firms see such investments as a stepping stone for world markets or as an expansion of their domestic market. Although cereals have been noted as highly import dependent, they are a key input for one of the largest food processing firms – CIM which explains the growth in preparations of cereals.

On a global level, exports of fruit and nuts, beverages and cereals from Mozambique have seen positive growth rates between 2013 and 2017, whilst sugar and sugar confectionary and products of the milling industry have experienced negative growth rates (Table 5). The decline in sugar exports (mostly comprised of raw, unprocessed sugar is largely due to it being used locally in the sweetened beverages and confectionary sector (as also confirmed in interviews with various stakeholders).

Milling products for export are predominantly comprised of wheat flour. Exports have been on a downward trend, notably from 2014, whilst imports have been rising over the same period. Although the CAGR (Table 5) for the cereal export category (predominantly raw maize, corn and wheat) is notably high, the absolute value of cereal exports remains relatively low, and also remains a net import category. From Table 5, it is clear that South Africa is a key export market for Mozambique (and not so much the region).

Table 5: Mozambique's total exports of selected food products, 2013 and 2017

HS class.	Product	Value (USD `000)		CAGR	Key market (% share in value)	
		2013	2017		2013	2017
HS08	Edible fruit and nuts	55 763	90 966	13%	South Africa (93); Portugal (3)	South Africa (93); UAE (2)
HS22	Beverages, spirits and vinegar	5 239	14 455	29%	South Africa (42); Portugal (17)	South Africa (55); Swaziland (17)
HS17	Sugar and sugar confectionary	190 470	27 014	-39%	South Africa (77); India (6)	South Africa (42); UAE (16)
HS11	Milling products	4 556	2 430	-15%	Zimbabwe (100);	Zimbabwe (51); South Africa (24)
HS10	Cereal	578	4 513	67%	Zimbabwe (81); Cameroon (5)	Zimbabwe (45); Malawi (34)

Source: Trademap

The above analysis, using export potential and supplementary information suggests that beverages and fruit and nut value chains carry the potential for further growth and industrialisation, given linkages to processing. The presence of South African and other multinationals also provide the opportunity for the accumulation of local capabilities in Mozambique.

6. Assessment: exploring the potential to develop capabilities in food processing

6.1 Overview of lead products in Mozambique's food sector and potential for upgrading

This section looks at the fruit and nut (with a focus on nuts)¹⁴ and beverages sector in more detail. Given the nature of protection afforded to the sugar industry in Mozambique, it is considered to the extent to which it is a key input into the industrial production of processed foods.

6.1.1 Fruit and nuts

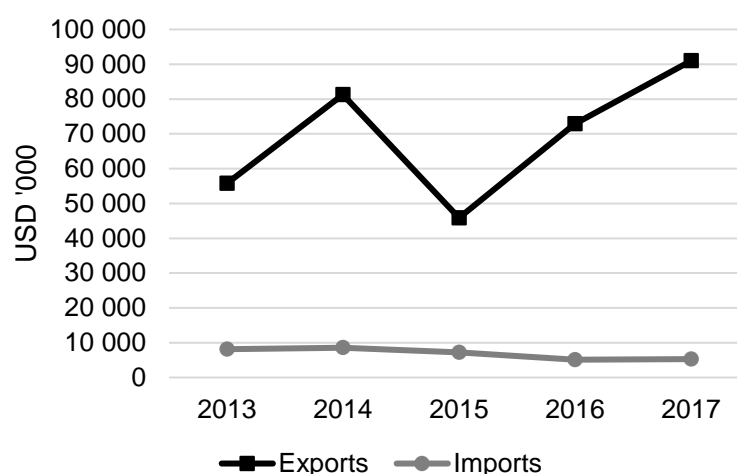
Growth in the exports of fruit and nuts has mainly been led by the coconut, Brazil and cashew nut products, followed by bananas (Figure 6). The characteristics of the cashew industry however suggest that its expansion can lead to broad-based growth, both at production and processing levels.

The **cashew nut** industry is particularly interesting given that Mozambique is one of the major producers of raw cashew nuts (RCN) in Africa, and has a history of capabilities in cashew nut production and processing.¹⁵ So other than the promotion of linkages between Mozambique's mega projects (in the minerals sector), the promotion of the cashew industry in Mozambique has been a key element of industrial policy. While Mozambique had a thriving processing cashew nut sector in the 1970s, a prolonged civil war, coupled with trade liberalisation policies in the mid-1990s hampered the growth of the sector.

¹⁴ Fruit is produced in small quantities and production is dispersed and not commercialised. Increasing volumes and improving quality, conservation infrastructure and creating packaging units are key challenges (interview with association on 22 May 2018). At this stage there appears to be little potential to develop the fruit value chain.

¹⁵ Interview with government institution on 15 May 2018

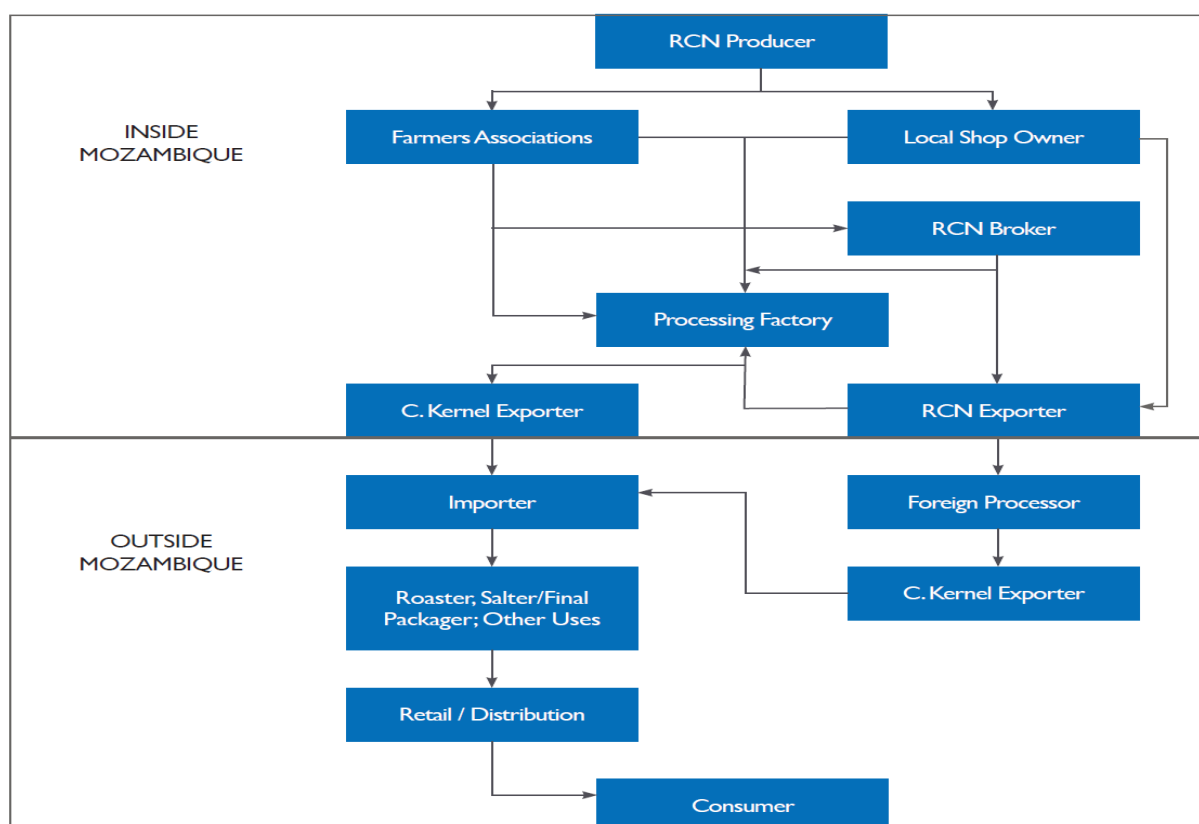
Figure 6: Mozambique's trade value of edible fruit and nuts, 2013-2017



Source: Trademap

A typical cashew nut value chain in Mozambique is depicted in Figure 7 below. At the upstream producer level, sourcing of RCN in sufficient quality and quantity at a competitive price is important for the local supply chain, as is improving production inputs (such as seedlings, land and fumigation products).

Figure 7: Cashew value chain, Mozambique

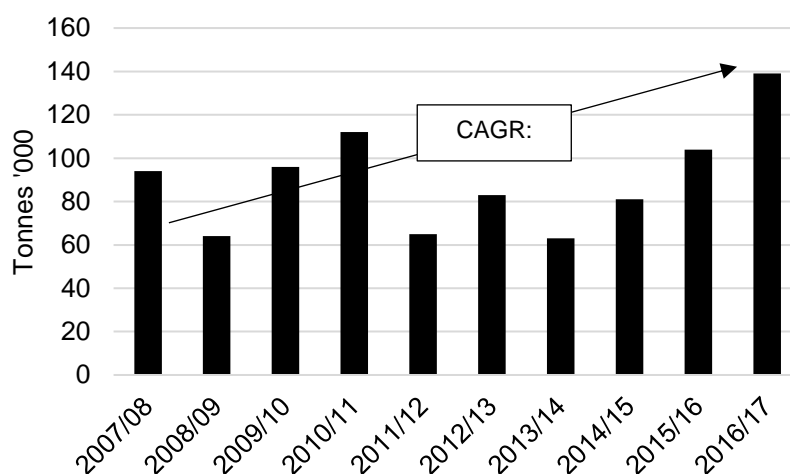


Source: USAID (2016)

Commercial cashew production has been increasing over recent years (particularly between 2014 and 2017) (Figure 8). The 2011/12 production season was the worst recorded between

2007 and 2017, due to a combination of factors including cyclones, strong winds and excessive rain.¹⁶ The growing cashew production is most likely a direct result of ongoing initiatives to revive the sector, including those implemented by Technoserve Mozambique and the National Cashew Promotion Institute (INCAJU) which falls under the auspice of the Ministry of Agriculture¹⁷ and is responsible for designing, monitoring and implementing promotional activities for the sector.

Figure 8: Commercial cashew production, 2008 – 2017



Source: INCAJU (2017)

Whilst there is a large and growing global market for RCN, Mozambique only processes half the cashew it produces.¹⁸ The processing (micro and industrial processing) that takes place in Mozambique largely excludes value added processing (Figure 7) required to produce cashew kernels (which are a high value commodity) and even RCN. These final processing stages¹⁹ are dominated by Indian firms who capture the bulk (80%) of the final consumer price value, whilst earlier stages only account for 20%. A majority of RCN production is therefore exported as an intermediate good to countries such as India and Vietnam for further processing and exported to North America and Europe for final consumption (Technoserve, 2017). As Figure 7 illustrates, value added processing is largely carried out outside of Mozambique.

There are 15 large industrial cashew processing facilities (predominantly located in northern Mozambique) and several smaller facilities, which collectively create over 14 000 jobs (Technoserve, 2017). A majority of large processing companies in Mozambique are foreign owned but the processing landscape is also made up of joint ventures with Mozambican locals. The cashew processing sector is at present operating at less than 70 percent of installed capacity, but company interviews suggest that local processing companies are slowly accumulating capabilities in cashew processing.²⁰

¹⁶ <https://macauhub.com.mo/2012/10/05/cashew-exports-net-mozambique-us5-million/> and interview with government department on 16 May 2018

¹⁷ Interviews with government institutions on 15 May 2018

¹⁸ Interview with government institution on 16 May 2018

¹⁹ These stages account for 80% of the final consumer price, whilst earlier stages account for 20% - indicating that foreign firms capture the bulk of the value in the cashew nut value chain (ACI, 2010)

²⁰ Interview with international organisation, 28 May 2018

Given significant value add at final processing and packaging stages, the promotion of the cashew processing industry requires significant and targeted initiatives and partnerships.

At the factory processing level, access to working capital and appropriate technology is key. Processing of cashews into cashew kernels uses labour intensive technology. Promoting labour intensive technologies is a key industrial development strategy for Mozambique (see section 4). Taking advantage of this market however requires the building of good buyer relations that demand certain quality and food safety standards to be met (Krause and Kaufmann, 2011). Establishing downstream linkages between suppliers and retail markets; as well as support for local processing is therefore critical for this value chain (Krause and Kaufmann, 2011; Correia, 2015).

A key challenge for developing the cashew sector remains increasing production capacity in order to meet global demand, particularly for smaller producers.²¹ Interviews indicate that countries such as India import substantial amounts of their RCN and West African countries have flows of RCN between all cashew producing counties, meaning that there is sufficient RCN to feed into the processing stage. Mozambique on the other hand, is relatively isolated and depends on its own national produce.

INCAJU has a goal to increase production to 200 million per annum (a 44% increase from current production levels) and process cashews to 100 million per annum by 2020. There are also plans to diversify and use cashew shells to produce oil through a Cashew Nut Shell Oil Distillation (CNSL) process and to further produce cashew apple juice. The industry also seeks to develop better oversight and regulation of the sector to ensure increased local value addition. Interviews with stakeholders indicate that a new cashew law and regulation is currently being drafted. This includes enforcing the export tax on RCN to protect the local industry and rather drive exports on more processed cashew.²²

However, Mozambique would need to reduce its costs along the value chain in order to increase its competitiveness, relative to India and Vietnam. This largely relates to tree productivity, quality sampling, skill levels and cost of labour, links to markets and scale as well as industry coordination at a policy level. Technoserve has been active in developing optimal production models, training and technical assistance, brand strategies and creating linkages with end markets in certain cashew producing regions (FAO, 2014; Technoserve 2018). These interventions need to be complemented with an enabling environment on the part of the government.

6.1.2 Beverages

Mozambique's beverages industry contributes significantly to industrial production and processing, along with other food products. Based on the categorisation of industrial production²³ by Mozambique's National Institute of Statistics, alcoholic beverages and soft drinks contributed 5% to Mozambique's main industrial produce in 2016.²⁴ Alcoholic beverages and soft drinks combined make up the largest volumes (about 90%) of beverage produce, with

²¹ Interview with government institution on 16 May 2018

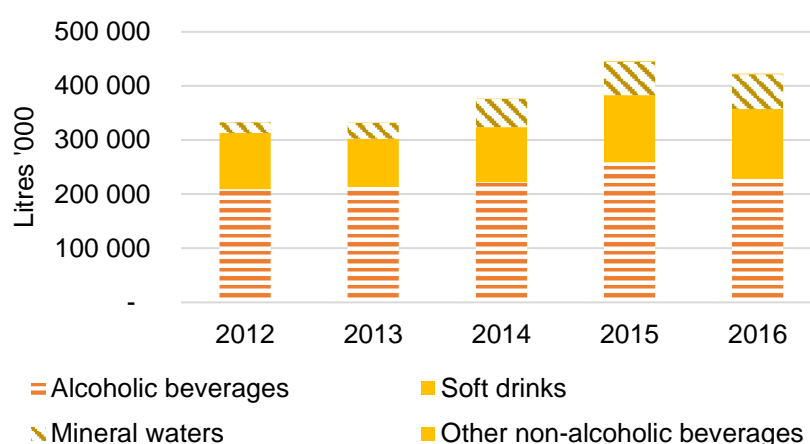
²² Ibid.

²³ Industrial production is dominated by extractive sectors (91%) and other key products for industrial production in that year include cement, maize and wheat flour and raw sugar

²⁴ Mozambique National Institute of Statistics (2017 data was not available at the time of writing this report)

the remainder being mineral waters (Figure 9). The production of beverages has grown at a CAGR of 5% over the last five years.

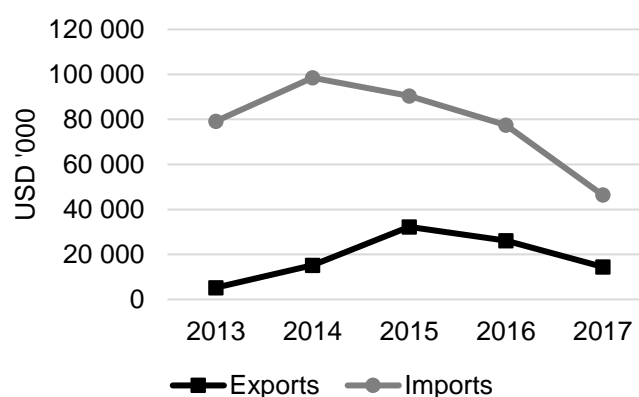
Figure 9: Industrial production of beverages, 2012-2016



Source: Mozambique National Statistics Institute

Beverage exports are largely made up of wine, fermented beverages, waters (including carbonated soft drinks) and to some extent beer. Although CAGR figures above indicate growth in exports for beverages, beverage produce is largely for domestic consumption, hence Figure 10 shows that trade volumes have been declining altogether. Import penetration for alcoholic beverages has also been relatively high and largely includes imports of premium branded beers such as Windhoek, Budweiser and Heineken.²⁵ Over recent years, imports have however been in decline due to a weaker exchange rate.²⁶

Figure 10: Mozambique trade value of beverages, spirits and vinegar, 2013-2017



Source: Trademap

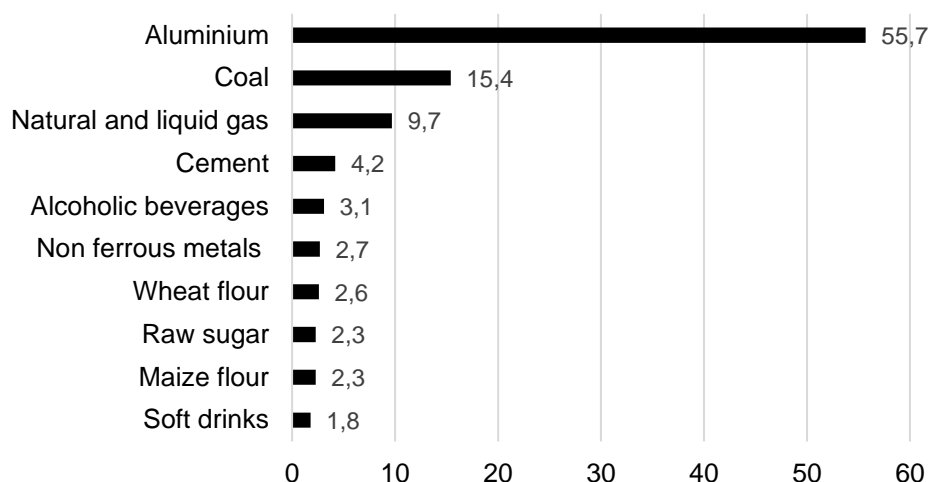
The soft drinks export market is very small, given that Coca-Cola is the dominant player (with more than 50 percent market share across the beverages portfolio) and has transnational operations. Exporting of soft drink products also requires high volumes. Beer is also more of a locally consumed product. Exports by CDM (who have a 92% share of the local beer market) are done in small numbers and to very specific clients in South Africa and Nandos chains in

²⁵ Heineken will soon become the second beer producer in Mozambique, with one plant currently under construction.

²⁶ Interview with processing firm on 23 May 2018

Portugal and the UK.²⁷ Beverages remain an important industrial product for Mozambique (Figure 11).

Figure 11: Main industrial products, 2016 (%)



Source: Mozambique National Statistics Institute

The local processing capacity of Mozambican beverage firms is still very weak. Although competitor soft drink brands, such as Frozy and Fizz exist, they are often labelled as “brand B’s” and are of much lower quality.²⁸

By virtue of the beverage industry being dominated by South African MNCs (Ab InBev and Coca-Cola SABCO), there is potential to develop local productive capabilities in Mozambique’s beverage value chain, through integration with and knowledge transfer from South African MNCs. These companies have also been involved in Greenfield expansion projects and introducing innovative products over recent years.

6.2 Developing local capabilities in food processing: Challenges and opportunities

Given the presence of South African firms (including retail chains) in Mozambique’s food industry, the research explores the conditions and potential to develop food processing capabilities in Mozambique’s (i) beverages, spirits and vinegar industry and (ii) edible fruit and nuts. It is crucial to investigate the extent to which South African investment is generating value-addition and spillovers, and developing capabilities in Mozambique’s local food processing industry. It is also important to understand the linkages with both local input manufacturers and local supermarkets and the sustainability of linkages between Mozambican and South African firms.

This section draws together the key challenges and opportunities (for the food processing sector) emerging from interviews with beverage producers, the cashew and fruit industry and other relevant stakeholders.

6.2.1 Product certification and standards

A key challenge for small food processors is the certification of products. According to stakeholder interviews, the National Institute for Standards and Quality – INNOQ (overseen

²⁷ Interview with processing firm on 23 May 2018

²⁸ Ibid

by the Ministry of Industry and Commerce) is not internationally recognised as a certification authority. Companies are therefore compelled to export informally (or illegally) to bypass certification requirements or else forego the export market altogether. There is also close to no enforcement on the Mozambican side, in terms of exporting non-certified products, making this an easier option.²⁹

Some buyers of Mozambican food products however occasionally request certification from a recognised body. Given that there are no certified labs (also for organic products), products tend to go through South Africa for certification.³⁰ Firm interviews indicate that obtaining certifications from a third party is costly.

Some small-scale food processing plants are in the process of getting HACCP (Hazard Analysis Critical Control Point) certified, which should effectively allow them to penetrate export markets, where it is a mandatory requirement. However, with this accreditation being done by uncertified national laboratories, the uncertainty remains.³¹ There also appears to be insufficient government engagement with industry in this regard.

Product certification is also a hurdle for the local market. Without standards and norms for certain produce, local suppliers do not have the required capacity to effectively supply large retailers. This, amongst other factors (see section 6.2.3) explains why supermarket chains are largely stocked with imported products, largely from South Africa.

In some cases, however, small processors struggle to get certification (such as HACCP) merely because their factories are not compliant. This is a constraint but also an opportunity for companies and producers of food to improve on their procedures. It must be emphasised that this requires finance and capabilities in order to upgrade to meet the requirements.

MozaCaju, through Technoserve, (discussed further in section 6.3), for example, actively worked with Mozambican cashew processing facilities to help them install food safety systems (through HACCP certification) that are internationally recognised. There are however no indications that this is happening at a larger scale and across key food processing sectors.

6.2.2 Food packaging

Packaging is a 'purchase influencer' and adds significant value to food products. So if foods are not packaged in a certain way they cannot enter certain markets. Furthermore, supermarkets often impose private standards on suppliers with regards to packaging.

Mozambique has no local packaging industry (except for some basic plastic and paper packaging). A good proportion of food products tends to go overseas, not only for further processing but for packaging too. This is particularly true with respect to the cashew nut industry. Cashews of good quality are at times exported to Portugal and re-imported with different packaging, all in response to consumer preferences. Although this does not occur on a large scale, it implies there is an opportunity for concerted effort to develop the local packaging industry, even if it is through partnerships with external institutions.

Packaging material is also imported by Mozambican processing firms at a high cost, predominantly from South Africa (Table 6). In the beverages sector, empty bottles and cans are imported from South Africa and filled with beer produced in Mozambique, simply because

²⁹ Interview with international organisation on 28 May 2018

³⁰ Interview with processing firm on 18 May 2018

³¹ Ibid

there is no local producer to supply the required packaging. Interviews with the beverage industry revealed that they have in the past attempted sourcing some packaging materials locally, but their experience was not positive, largely due to unreliability of local suppliers in terms of volumes, quality and consistency. The government has also tried to get local investors into this market, with little success. There therefore remains a high dependence on imports for food packaging.³²

Table 6: Source country of selected packaging materials in food and beverage market

Packaging materials	Source country
Plastic	South Africa; Dubai
Glass (incl. jars and bottles)	South Africa; Dubai
Crown caps (beverages)	Egypt; India
Plastic bags for nut packaging	India

Source: Interviews with stakeholders

One institution actively researching in the food packaging industry in Mozambique is the Global Alliance on Improved Nutrition (GAIN). A study by GAIN reveals that the absence of a strong domestic packaging industry has contributed to price increases of food in Mozambique, with the cost of imported packaging reaching US\$100 million dollars in 2016.³³ Although Mozambique has 71 packaging companies, these do not satisfy market needs, in terms of meeting quality and safety needs. GAIN recognises that packaging involves large costs and adds substantial value to products, and is at present engaging with various stakeholders to understand the dynamics of the local packaging industry (which as indicated largely sources materials from South Africa) and why it cannot be developed internally.

This links closely to findings from regional value chain studies (referred to in section 1) that identified packaging capabilities as a key obstacle to industrialisation. At present, a South Africa and Zambia led initiative is considering developing a Regional Centre of Excellence (CoE) in packaging, targeted at firms in the FMCG industry. Although the CoE is initially targeted at firms in Zambia, the initiative considers how the capacity can be developed to expand services to more countries in the region over time.

The Institute for the Promotion of Small and Medium Enterprises (IPEME) also tries to support value addition in the cashew industry through packaging and developing competitive elements such as barcoding and brand development, but this is being done at a small scale.

The experience of Mozambique based Portuguese company '*Sumol + Compal*' highlights the relevance of the packaging for the development of the food value chain and linking to supermarket groups. The company was the first to introduce Tetra Prisma - a premium carton packaging for high quality juices and other liquids in 2012.³⁴ Compal's juices, which are manufactured in a factory in Maputo province are now being exported to Pick n Pay stores in South Africa - their first large scale customer. The introduction of this packaging started when the Portuguese group went through a process of rebranding and packaging. The new packaging format was later adopted by Pioneer in South Africa. This essentially shows how important packaging is to access supermarkets.

³² Interview with processing firms.

³³ <http://clubofmozambique.com/news/lack-of-domestic-packaging-industry-inflates-food-prices-in-mozambique/>

³⁴ Interview with food distributor on 15 May 2018

6.2.3 Access to markets

Cashew nuts are a market-oriented crop, and along with other food products, supplying formal national supermarkets is a government commitment which is intended to boost trade and agricultural production. The key route to market for beverages on the other hand, is the informal market, which represents about 70% for alcoholic beverages, while it varies between 60-65% for juices.³⁵ Modern trade (dominated by South African supermarket chains) generally does not represent more than 40% of trade in the beverages market. For carbonated soft drinks, about 80% is sold through formal retail and informal distributions channels.

For producers of fruit products, supermarkets are a significant market opportunity, but meeting their needs and requirements is a challenge.³⁶ Supermarkets in Mozambique typically require similar standards as those in South Africa and other countries in the region where they operate. Past studies (see das Nair and Chisoro, 2016) identified critical success factors in the supply of supermarkets in South Africa, Zambia, Zimbabwe and Botswana. These relate to quality, consistent supply of the required volumes, acceptable lead times and to some extent brand awareness, which essentially require some level of capability on the part of suppliers. Similarly in Mozambique, supermarkets have general trading terms with their suppliers which stipulate these expectations. Trading terms are typically negotiated between the supermarket chain and supplier as part of fixed term contracts.

Trading terms and negotiating power of supermarkets

The substantial buyer power of supermarkets skews bargaining power between suppliers and retailer, in favour of retailers (see das Nair and Chisoro, 2015). The exertion of buyer power in procurement practices also often leads to supermarkets imposing onerous trading terms which prevent SME's from accessing the retail space. Given that retailers are the last link between products and consumers, large supermarket chains are essentially able to exercise considerable control over suppliers and the food value chain more broadly (Chisoro-Dube, das Nair, Nkhonjera, and Tempia, 2018).

Furthermore, supermarkets set a fixed price to ensure that supplier prices are kept as stable as possible, although with escalation clauses such as those pertaining to variations in the exchange rate. The expectation is that suppliers should then be able to deliver to all stores on time, and with the right quality.

Although one supermarket interviewed would not give specific details on listing requirements and fees, SPAR indicated that they do not have listing or slotting fees in Mozambique. SPAR offers flexible and more relaxed payment terms to smaller suppliers, stating that it would offer a 30-day payment term (the least acceptable term), bearing in mind that payment terms are typically between 60-90 days. The larger the supplier, however, the larger the volumes of the product and exposure of the business (considering the supermarket would have to keep an extra amount of stock) which warrants a longer payment period.

For small suppliers who approach supermarkets for shelf space, SPAR indicates that they are generally open to running a 30-day (trial) account within which the supplier is given time to guarantee their quality, consistency and reliability to a specific order and delivery schedule. Local suppliers or start-ups may ordinarily not have the right quality, presentation, logistical or administrative ability (to do invoicing or barcoding) but some supermarkets would generally

³⁵ Interview with association on 15 May 2018

³⁶ Interview with processing firms on 16 and 17 May 2018

accept to stock the products and do the barcoding in-house for example. However in most cases, small suppliers tend to comply only in the first few deliveries of a trial period. This indicates the need to develop supplier capabilities to sustainably supply retailers.

The ability to offer the flexible trading terms discussed above appears to be more specific to SPAR, given its nature as a franchise and may therefore not be common across all supermarket chains. The general sentiments by small suppliers are that it is not possible for suppliers with limited scale to supply supermarkets because of long payment periods, in addition to other terms that are onerous for small suppliers, including requirements to supply all stores with a supermarket chain. In Mozambique, supermarkets are perceived to be a market for 'premium' brands.³⁷ This essentially means that "brand B's" may find it even more difficult to access supermarket shelf space and also suggests that local suppliers are lacking the capabilities or required support to do so.

Despite current low demand patterns due to Mozambique's economic crisis, large food companies on the other hand do not typically experience challenges getting to markets and supplying supermarkets. There is obviously a more even bargaining position between these suppliers and supermarkets, making it easier for them to access shelf space. Furthermore, for firms who are dominant in the markets in which they operate, there is an exceptionally big interest from supermarkets to stock their products, as these are seen as 'must-have' products (e.g. Coca-Cola products).³⁸

Procurement and sourcing strategies of supermarkets

Large supermarket chains tend to have their own supply networks (das Nair and Chisoro, 2017). SPAR in Mozambique has a distribution chain locally, but of their entire food sales category, 25% is sourced from South Africa. An additional 25% is sourced locally and the remainder is sourced internationally across 16 countries. However, the franchise nature of SPAR should mean that it can source more locally given independent ownership per store. International (deep-sea) sourcing is done because in the region there are onerous processes involved from the inception of an order to the actual physical delivery of the products, which is said to be slow and bureaucratic. It takes 6-10 weeks on average, and sometimes even 3 months to import from South Africa. Importing a container from Lisbon on the other hand, arrives much quicker than bringing in products even from SPAR's distribution centre in Nelspruit (South Africa) (see section 6.2.2). This also has to do with certification and licensing of food products required at border posts. But while all the rules are the same for products coming out of Portugal, it is still much quicker (by 2-3 weeks) to import from deep sea markets, largely due to border delay issues in the region.

Retailers in Mozambique therefore indicate that cross border road transport backlogs effectively make products more expensive and less accessible. It was suggested that due to bureaucracy, border paperwork can cost between 10-15% of the cost of a product.³⁹

Similarly, Paelo and Vilakazi (2017) find that transportation in the region is reliant on linkages between border authorities, service providers, traders and agents and the differences in regulations and border clearance and procedures constrain the regional transport sector.⁴⁰

³⁷ Interview with processing firm on 23 May 2018

³⁸ Interview with food processing firm on 22 May 2018

³⁹ Interview with supermarket on 17 May 2018

⁴⁰ The study identified large-scale investments in one-stop border posts as a potentially beneficial initiative for dealing with border post delays

The African Continental Free Trade Area (AfCFTA) and other regional initiatives are all aiming to address these border issues.

The premium quality of products found in countries such as Germany, the Netherlands and Vietnam (relative to South Africa and Mozambique) is also an incentive to import from overseas. If you take into account logistics costs (discussed below) these products can be imported for cheaper.

This research distinguishes between three procurement practices by supermarkets in Mozambique:⁴¹

- i. Sourcing from locally registered distributors of South African firms (such as Nestlé, Procter & Gamble, Kellogg and Simba).⁴²
- ii. Sourcing from subsidiaries of large South African or multinational firms such as CDM (Ab InBev), Unilever's local Mozambican branch and CIM (Premier FMCG)
- iii. Sourcing directly through imports, which is still largely through export distribution centres in South Africa or from international markets, as described above.

In essence, there is very little sourcing from local Mozambican suppliers. For satisfying supermarkets' criteria and conditions for procurement - quality, consistency, and reliability appear to be the most important factors. If suppliers are at least able to get the first two aspects right, supermarkets then consider price. From a local supplier perspective, the biggest issue is that in most cases supermarkets do not find the right quality and consistency. Reliability of the offering is also poor and supermarkets cannot operate a store without consideration of these factors. For small suppliers, exporting (including to South Africa) is seen as an alternative market and opportunity given its proximity. Exports are however, more commonly done informally due to low volumes and certification challenges (see 6.2.1).

6.2.4 Domestic regulations

Government policies and regulations influence the competitiveness of national firms. Policies governing the sugar sector, for instance that essentially protect the local sugar industry particularly affect the food industry by raising the cost of raw materials and consequently the final price of processed foods. This was the case in the Zambian and South African sugar markets (das Nair, Nkhonjera and Ziba, 2017). For the beverages sector, a specific grade of white refined sugar is required at a certain standard for use in the production of soft drinks. Currently local sugar factories do not have the capacity to produce this required sugar. At present this grade of sugar is therefore imported (as section 5.2 shows) from neighbouring countries of Malawi, Zambia and South Africa.

As mentioned in Section 5.1, there is a large investment being made in the Xinavane Sugar Mill (by Tongaat Hulett) to produce refined sugar locally and within some years it should be available.⁴³ This should address a lot of issues regarding sugar availability for the beverages sector and food processing factories.

⁴¹ A Portuguese-owned independent retailer interviewed imports about 70% of its goods (largely from Portugal) and is looking to further import certain South African brands. Their strategy behind importing is that they have four strong brands from Portugal for which there is high demand in Mozambique

⁴² Interview with supermarket on 24 May 2018

⁴³ Interviews with stakeholders

Despite this food processors would prefer to import competitively priced sugar from international markets, but restrictions on imports do not enable this. This is closely linked to the SADC Sugar Co-operation Agreement which facilitates a more integrated regional market for sugar and promotes the competitiveness of surplus sugar producers. The agreement does not seem to benefit downstream local industries, despite the development of such industries being explicit objectives of the agreement (see das Nair et al, 2017). Commercial prices of sugar are high in the local market in Mozambique. The National Sugar Distributor (DNA),⁴⁴ the body representing sugar producers, is proposing a reference price of \$932, while the world market price is currently around \$335 per tonne and Coca-Cola is buying at \$650 because they hedged in 2015. The emphasis is that Mozambican consumers do not have the purchasing power to absorb these prices, should the final price of beverages rise.

Although there are local challenges in the sugar industry, prices need to be more competitive and not heavily regulated as they negatively affect downstream sugar utilising industries. Companies appear to be discussing commercial terms with the DNA due to the effects of the protection afforded to the sugar industry.⁴⁵

Past studies (das Nair et al., 2017) found that more policy alignment is needed in the SADC sugar industry. This requires an evaluation of the overall and combined impact of the regulations governing the sugar industry, both at a national and regional (i.e. the SADC sugar policy framework) level and how they benefit or harm downstream industries. At present, governments of sugar producing countries in the region are extensively lobbied into protecting growers and millers of sugar, without consideration of downstream value-added industries, and this seems to be the case in Mozambique.

The *Law 54/2013 of 7th of October and its "Regulation on Control of Production, Trade and Consumption of Alcoholic Beverages* that came into force in early 2014 prohibited the production of plastic bottles for alcoholic beverages. Although it has been publicly documented that this law contradicts the country's industrial policy strategy, it was primarily aimed at protecting consumers (and particularly the low-end market) which was dominated by cheap spirits sold in small plastic sachets.⁴⁶ The formal argument made in favour of this law was around health and safety issues. The government of Mozambique is concerned that contact between alcohol and plastic may result in contamination. Interviews note that the decision was also made to reduce the availability of alcoholic beverages by reducing affordability, given that glass bottles are more expensive than polyethylene terephthalate (PET) bottles and sachets.⁴⁷

The effects on manufacturers however were clear - CDM bought a factory four years ago that was producing spirits and wines. The factory was in operation for a short period and eventually closed down following the passing of this law.⁴⁸ During that period there were no capabilities to produce alternative packaging nationally, so this affected both the packaging industry and producers of alcoholic beverages.

More recent regulations affecting the food sector and by extension the FMCG sector in Mozambique relate to labelling and packaging requirements. Labels of packaged foods and

⁴⁴ The DNA imports the majority of refined sugar (See <http://www.acismoz.com/wp-content/uploads/2017/06/SPEED%20Report-Price-Variation-Study-Draft.pdf>)

⁴⁵ Interview on 23 May 2018

⁴⁶ <https://allafrica.com/stories/201408010443.html> and interview with beverage producer

⁴⁷ Interview with beverages producer on 23 May 2018

⁴⁸ Ibid.

beverages must now indicate certain elements in Portuguese.⁴⁹ Pre-packaged foodstuffs with labels in foreign languages should also contain their total or partial translation into Portuguese. This law was introduced on the basis that for a Portuguese speaking country consumers are unable to read food labels.

Although changes in the labelling laws had not been fully implemented at the time of writing this report, they are likely to have a significant impact on the food industry going forward.⁵⁰ This means that Mozambique cannot easily import from countries such as Turkey, China and even South Africa without having product packaging translated to Portuguese.

South African supermarket chains indicate that this requirement will be a costly exercise but in order to be compliant only suppliers that abide with this law will be permitted to stock their products with supermarkets, and where any penalties are incurred due to non-compliance, these will fall on the supplier.⁵¹ The risk for South African supermarket chains is that suppliers in South Africa may end up arguing that volumes are not large enough to warrant a change in their packaging.⁵² However this law would not affect chains such as Mega Cash & Carry that import a large portion of their products from Portuguese speaking countries directly.

Changes in the rules and laws governing the food and beverages industry is what promoted the formation of the Association of Producers and Importers of Alcoholic Beverages (APIBA) which represents 14 beverage companies (that make up more than half the volumes produced by the sector).⁵³ APIBA is active in discussions regarding industry laws, from issues relating to safety, consumption and compliance to labelling, taxes and excise duties. A great concern for the food and beverages industry is that regulations are constantly changing, are costly to implement, and are not enforced on sectors outside of the formal sector.⁵⁴ The enactment of various laws (including labour laws)⁵⁵, and those discussed above contribute to a complex regulatory system that acts as a burden on the food industry.

6.2.5 Cross border and in-country trade and logistics

The movement of goods due to poor and weak transport infrastructure is a serious challenge in Mozambique. This has also been identified as a key bottleneck for Mozambique's industrialisation (as mentioned in Section 4). This in turn has the effect of raising the final prices of goods, resulting in price differentials across provinces in Mozambique. Beer sold in Niassa⁵⁶ province, for example, tends to be sold for double the price in Nampula (where one of CDM's plants is located). This is a result of a lack of critical infrastructure to get the products there. This was a common finding even for retailers. Food products sold in Niassa province can be 40% higher than the price in the south of Mozambique. For this reason, the retailer does not distribute its products to Niassa.

⁴⁹ This includes the name or brand of the product, name of the business or headquarters of the producing company, nutritional content, additives, ingredients of quantities, date of manufacture amongst other things. See https://www.hrlegalcircle.com/xms/files/Noticias/2017/Greenfield_Training_-_HRA_Packaging_and_Labelling.pdf

⁵⁰ Interviews with stakeholders

⁵¹ Non-compliance could result in fines, apprehension of goods, ban of entry for imported goods and loss of goods.

⁵² Interview with supermarket on 24 May 2018

⁵³ Ibid.

⁵⁴ Interview with food processing firm on 21 May 2018

⁵⁵ Changes in Mozambique's labour laws are said to be aimed at making the country more competitive, creating decent working conditions and boosting production and productivity

⁵⁶ Niassa is the most Northern Province of Mozambique, bordering Tanzania and Malawi.

The centre and north of Mozambique have been described as the most challenging when it comes to road infrastructure. It can take 24 hrs to travel 300kms (between Chimoio and Zambezia), for example.⁵⁷ There is therefore no effective system of transport to allow for the transporting of goods between producing areas in the north and markets in the south.

Sea (or rail) freight as alternative modes for local transportation of goods would be more efficient and lower transport costs significantly. Mozambique ports were constructed and adapted to receive bulk cargo, but exports tend to be sent to Durban and then re-exported from South Africa. At present, it appears most ports are not operational. Few of the small firms interviewed produce significant volumes to justify the use of sea freight and even where they do use it for small quantities, waiting periods are long.⁵⁸ The government appears to be responding to the issue around Mozambique's ports by expanding the capacity and efficiency of port infrastructure. However this process has been slow.⁵⁹

Transport inefficiencies are exacerbated by border systems and trade regulations. Exporting to Zimbabwe can be a hurdle due to the *Bureau Veritas* requirement, especially if one is unaware of the process. A certificate of conformance is required for some food and agricultural products and packaging materials to show compliance to applicable international testing and standards. Obtaining this certificate can take anywhere between 7-15 days and during this time trucks remain idle.⁶⁰ It was emphasised that although this is a necessary document for quality assurance, it should be a reasonable process, particularly for smaller companies. As mentioned in prior sections of this report (Section 6.2.1) product certification is also an internal challenge for small processors in Mozambique.

Stakeholder engagements indicate that cross border trade would be facilitated if all countries implemented the SADC protocol passed on 1 January 2008, which entitles member states to a certificate of origin. Goods falling under the SADC Rules of Origin are exempted from paying duties or being declared when traded within southern Africa. Unfortunately, this protocol is not being observed by all SADC member states.

6.2.6 Informal food markets

Mozambique's informal market accounts for over 90% (one of the highest in the region) of its economy.⁶¹ The challenges pertaining to the informal food market bring together a number of issues discussed separately in this section.

There is a large, versatile and dynamic informal sector in the Mozambique's agro industry which is often not represented in terms of policy and support measures. There are numerous small and micro informal processors of nuts and other food products destined for the informal market.⁶²

In informal markets, most food processing activities are done manually, and international standards are compromised. The existence of a large informal market in Mozambique also means that some food products are sold in packaging that does not meet basic safety

⁵⁷ Interview with food processing firm on 23 May 2018

⁵⁸ Interviews with stakeholders

⁵⁹ Ibid

⁶⁰ Interview with food processing firm on 23 May 2018

⁶¹ http://www.ilo.org/addisababa/countries-covered/zambia/WCMS_462681/lang--en/index.htm

⁶² Interview with government institution on 18 May 2018

standards or allow for long term preservation.⁶³ A key concern for the formal industry at large, is that the informal sector is not subject to the laws governing the food and beverages sector (discussed in section 6.2.4) which is a risk for the industry and for consumers in terms of compliance with basic health and safety standards.

Furthermore, the Association of Small Importers from South Africa – an association of 1200 Mozambican informal cross border traders, appears to be importing the very same foods products that Mozambique exports. The association quotes that food products are exported, leaving the local market empty and consequently filled with imports. A key challenge is the absence of links between the formal and informal market. The association has been for several years trying to formalise its members to ensure linkages are created. The sizeable presence of small scale industries points to the sector's role in employment but also the potential of the industry, should these processors be integrated into formal value chains. The Association of Small Importers from South Africa is also trying to introduce the Southern Africa Cross Border Trade Association (SACBTA) mechanism, using the experience from COMESA's Simplified Trade Regime (STR). The STR consists of instruments specifically tailored to assist small scale cross border traders to benefit from preferential rates and customs procedures (including a simplified certificate of origin). Efforts are currently underway to develop a STR for intra-SADC trade.⁶⁴

6.2.7 Other competitive factors

Stakeholder engagements further suggest that constraints that also affect the development of the food processing industry include challenges in developing competitiveness. Three key challenges are identified: (i) lack of raw materials (ii) obsolete processing equipment and (iii) access to credit lines. These are discussed in turn below.

Access to raw materials for food processing

CIM, one of the largest food processing firms in Mozambique, predominantly processes maize and wheat for the production of maize flour and pasta along with a number of other products like biscuits. While wheat is imported from overseas due to little wheat production in Mozambique, maize can be sourced locally but is still largely imported from South Africa (despite border bottlenecks). The reason behind importing maize from South Africa is quite complex. Simply put, due to the location of large producing zones (in the centre and north), which are not in proximity to the main domestic market (Maputo province), coupled with transport infrastructure challenges in Mozambique, it is much easier for companies like CIM to source raw materials from South Africa (Mpumalanga province). Maize is also a highly speculated commodity, which tends to raise production costs significantly. Although available, it is difficult to source maize internally.

If there was more certainty with regards to sourcing of maize there would be greater incentive for processing firms to, at least in part, source it locally.⁶⁵ Companies are uncertain that local quantities would be enough to supply them within a year (CIM uses 70 million tonnes of maize and 150 million tonnes of wheat annually). There are also questions around the quality of local raw materials. CIM has attempted to engage local producers, institutions that manage the commercialisation of maize, the institute for cereals and the grain exchange market, but with

⁶³ Interview with international institution on 17 May 2018

⁶⁴ <https://www.tralac.org/publications/article/12825-informal-cross-border-trading-review-of-the-simplified-trade-regimes-in-east-and-southern-africa.html>

⁶⁵ AfriMag Mozambique, 8th Edition, May and June 2018

little success. For practical reasons, the company procures its maize in markets, where there is a price, an offer, a contract and a delivery. This affords them better control over their raw material costs.

Large firms such as Coca-Cola and CIM are essentially importing sugar and maize products because domestic production is weak, of low quality and sold at high prices. Importing from neighbouring countries, as noted, is often cheaper. Although this also exposes companies to currency fluctuations, multinationals are able to take advantage of scale economies in terms of procuring raw materials (that are not locally available in Mozambique). Where there is a regional procurement base they are able to get scale and negotiate prices when procuring as a group of companies.⁶⁶

Interviews suggest that firms want to be able to source raw and packaging materials locally, as this is in fact the more efficient route, especially given cross border transport inefficiencies (discussed in 6.2.5). A big challenge therefore is increasing the competitiveness and capabilities of local products for food processing firms to be able to source good quality and reasonably priced inputs.

Processing technologies

A number of processing factories in Mozambique are still operating with obsolete technologies which make it difficult for them to be globally competitive. Interviews with stakeholders in Mozambique indicate that most food processing companies use traditional, outdated technologies that are inefficient.

Cashews for example can be processed in different forms but the technology is more or less standard worldwide and accessible through imports from India and Vietnam. Whilst some of the processing phases of cashew nuts are done manually (such as grading), and others automated, overall there appears to be low use of modern technologies, (as also mentioned in 6.1.1) putting Mozambican processors at a competitive disadvantage. The more mechanised processes typically involve the value-added phases of roasting, CNSL and shelling. Although we note that there are employment implications of mechanisation, better processing technologies can increase productivity levels and the competitiveness of Mozambican cashews, leading to further growth of the sector.

Institutions such as IMPEME and Technoserve have been active in improving processing models and facilities through enhanced technology and other programs in the cashew sector (see section 6.3). Technological upgrading is key for enhancing the international competitiveness of domestic firms and although there are existing programs efforts to advance technology, it appears to be happening in silos, at a small scale and not targeted at specific food industries.

Micro credit and cost of financing

Agriculture and agro-processing is considered a risky business for funders in Mozambique. Finance is often not available, and where it is available, it is costly. In terms of access to credit lines in food value chains, companies note that the requirements for micro-credit are the same as those required by large commercial banks. More often than not, when SMEs gain access

⁶⁶ Interview with food processing firm on 22 May 2018

to credit it is when they are more organised and form some sort of an association.⁶⁷ But as individuals or single business units, it is far more difficult.

In general, there are onerous conditions of eligibility for smaller players with the demands of financiers being high. For a small food processor entering the export market, finance is required to purchase machinery and scale up production.⁶⁸ This is also true for supplying local markets through supermarkets.

A development finance institution - GAPI (Office for Small Business Consultancy and Support) in Mozambique - intervenes in this market to support SMEs through a combination of financial and business development services as well as with technical assistance. GAPI mobilises funds directly from international donor agencies (such as the AfDB and World Bank) and is actively involved at both agricultural production and processing levels.

Some of its banking activities include a guarantee instrument for clients wanting to invest in the sector and also has co-funding⁶⁹ arrangements with six commercial banks (including the Land Bank) to encourage financing for agribusiness. This is an important funding mechanism given the reluctance of commercial banks to fund small, but also agribusinesses. GAPI has especially played an active role in supporting the creditworthiness and financial services for entrepreneurs, as well as upgrading informal groups into formal savings and credit institutions.

There have also been recent efforts to mobilise funding (an allocation of US\$100 000) for the local agricultural sector through the National Investment Bank (BNI). Extending the scope of action of the BNI is a strategic industrial policy of the Ministry of Industry and Commerce. It serves to support initiatives covering the entire agribusiness value chain including technical assistance and forms part of the MozGrow project which brings together industrial, commercial and production players in agribusiness.

Given that GAPI and other micro financing institutions and programmes in agriculture are rooted in the micro and small enterprise sector, a key challenge for developing the food processing industry, as cited in interviews, is addressing structural problems in the value chain. This is especially related to large information gaps. The introduction of digital technologies was identified as a way of improving the interface between producers and processors and the market at large.⁷⁰ This could also enhance the effectiveness of financing activities and funding allocations.

6.3 Role of foreign firms and supermarkets in supporting local suppliers and capabilities

Supermarkets and supplier capabilities

The growth of supermarkets has placed significant pressure on suppliers with regard to costs, volumes consistency and quality, which require a range of capabilities to successfully supply supermarkets (das Nair and Chisoro, 2016). This is also evident in the case of Mozambique.

⁶⁷ Interview with government institution on 18 May 2018

⁶⁸ Ibid.

⁶⁹ Co-funding is however done only for investments not exceeding US\$300 000. A report by Sianes (2013) report also found that Gapi's interest rates (approx. 20%) are also lower than those of commercial banks (approx. 29%)

⁷⁰ Interview with Gapi on 23 May 2018

Food items that do exist locally are procured locally as far as possible, and supermarkets believe this indirectly helps local suppliers.⁷¹ However more deliberate or formal supplier development programmes on the part of supermarkets would be more effective in assisting local suppliers accessing shelf space.

Supermarkets point out that supplier development programmes require significant planning, time and resources – such as identifying what quantities to buy, from which suppliers, as well as allocating funds to directly develop a specific sector. This also requires significant co-ordination from a multitude of actors.

Supermarkets indicate that the biggest opportunity to support local suppliers would be in the fruit and vegetable processing market because it is fresh and fast, and shelves need to be kept full at all times. Supermarkets claim to try hard to find local suppliers of fruit and vegetables and to support farmers, especially because farms are labour intensive. All supermarkets interviewed currently import their fruit and vegetables, predominantly from the Johannesburg market, but this is not necessarily the most convenient option given border inefficiencies (discussed in 6.2.6). Still, it appears supermarkets are unable to source foods such as perishable fruit and vegetable in the right quantities and quality in Mozambique. Independent supermarkets prefer to deal with one supplier who can supply 70-85% of their assortment and this is available in South Africa. Therefore, with one truck load, they can import enough stock in the right quantities, packaging and dimensions for their store.⁷²

Although a combination of factors affects the ability of national brands to reach supermarket shelves, interviews indicate that the absence of ‘rules’ regulating the retail sector exacerbates this problem. The government of Mozambique however indicates that it is in the process of working with suppliers and identifying synergies between small and large suppliers.⁷³ A recommendation to develop a Retail Code of Conduct, aimed at establishing (voluntary or mandatory) codes of conduct between suppliers and supermarkets was put forward from previous CCRED studies (Chisoro-Dube et al., 2018). If implemented, this could be a way of regulating South African supermarket chains, including those operating in the region.

Firm-level support

Support for local industry, and transfer of technology and skills is important for establishing linkages and upgrading the capabilities of suppliers in the food processing industry. The MNCs interviewed as part of this study, employing upwards of 800 employees in Mozambique’s food and beverage industry, play a central role in developing the capacity of local establishments.

Like supermarkets, large food processing companies find that while there is some capacity to source locally, there are key challenges in this regard. The preference for companies overall is to be able to source raw and packaging materials locally, as there are several advantages to this, even for big companies.⁷⁴

The beer value chain, to some degree has integrated and promoted local suppliers in the industry through the sourcing of local maize and cassava produce (Box 1). Local sourcing, amongst other initiatives, has had the effect of raising demand from smallholder farmers and also increasing the processing of cassava to be incorporated into the brewing process (Sutton, 2014). The launch of the cassava-based beer which sources inputs only from local suppliers

⁷¹ Interview with supermarket on 18 May 2018

⁷² Interview with supermarket on 28 May 2018

⁷³ Interview with association on 23 May 2018

⁷⁴ Interviews with stakeholders

came to the fore as a result of the Mozambican government actively encouraging the use of local raw materials.⁷⁵

Box 1: CDM integrating Mozambique's local crops into the beer value chain

CDM (Ab InBev Group) introduced a new beer in the beverages market. The *Impala* brand which commenced production in 2011/12 uses cassava cake to produce beer. It is the first industrial cassava beer brewery under the regional brand, and uses 70% cassava and 30% barley in the production process.

Cassava is a key agricultural product in Mozambique, but until now has not been integrated in any value chain, with a large portion of it going to waste. The introduction of this brand was therefore used to enhance and help smallholder farmers producing cassava and essentially adding value to cassava produce as well as promoting linkages between large firms and local producers. It was also a way of putting a safe alcoholic product in the lower end of the market, which has been dominated by cheap spirits and homemade beers, where there was no quality control.

Recently, CDM launched a second version of Impala called *Impala Maize* which similarly integrates national maize produce into industrial value chains.

CDM was also the first company under the Ab InBev brand to produce what was called *Chibuku Super* packaged in glass bottles, instead of cartons as supplied in other African countries and also uniquely uses gas for its production.

All these processes required some form of innovation and investments to be made by large, lead firms.

Source: Interviews with stakeholders

Based on CDM being part of an international group (headquartered in Johannesburg), the company takes advantage of the presence and scale in South Africa to get access to facilities and training. There is a large internal training process that involves more equipped breweries training those that are less equipped (within the Ab InBev Group). These arrangements are said to have existed when the company was still under SAB Miller. Training programs therefore generally exist depending on the skills and specification of training required.

The policy of the parent company, Ab InBev, is to use as many local employers as well as developing programmes to attract young talent. CDM is launching a graduate programme towards the end of 2018 which will be presented to universities with the aim of attracting and nurturing young talent.

A key challenge noted in interviews is that Mozambique is geographically surrounded by English speaking neighbours (South Africa, Tanzania and Malawi) which makes the implementation of technical training in processing factories a challenge.

Institutional support for suppliers

Addressing challenges inherent in the food processing industry and developing the capabilities of local suppliers should ideally involve both non-government and government institutions.

⁷⁵ Interview with association on 23 May 2018

Technoserve plays a key role in supporting small scale producers and processors in Mozambique's food sector. The MozaCaju⁷⁶ cashew project demonstrates the importance of developing interventions throughout the value chain, but also the need for coordinating with different stakeholders (Box 2). MozaCaju was implemented by Technoserve, funded by the United States Department of Agriculture, with the government of Mozambique (through INCAJU) serving as a key partner.

Box 2: Technoserve MozaCaju Project

MozaCaju was a four-year initiative, implemented by Technoserve in 2014. It was aimed at upgrading Mozambique's cashew industry by allowing processors to meet the preferences of the international cashew market, but also improving supply side aspects of the value chain. The project was therefore designed to address key bottlenecks in the supply chain. The project developed specific interventions at different levels of the value chain to increase the quantity, quality and value of Mozambican cashew nuts.

Cashew processing is a high volume- low margin business and Technoserve recognised that improving efficiencies within factories is important. MozaCaju's range of activities included grants to SMEs in agribusiness, technical assistance in industrial processing facilities to support batch processing and phyto-sanitary standards required to enter niche markets, as well as the provision of advisory services to farmers. These interventions simultaneously introduced new technologies, raised farmer incomes and created jobs at both producer and processor level. Moreover, MozaCaju has increased Mozambican processors exports of cashew kernel.

The MozaCaju initiative (through Technoserve) also played a key role in linking processors to financial services and served as an intermediary for more competitive interest rates for loans.

The success of this programme was targeted at different levels of the supply chain, from production, input, processing, finance and marketing. More importantly, Technoserve's interventions have facilitated and created strong linkages between producers, processors and retailing markets.

Source: Interview with Technoserve and MozaCaju Impact Report (2017)

INCAJU also directly runs target programmes for technical assistance, grants and the improvement of seedling distribution, to aid with production. As the sole public sector agency for the cashew value chain, INCAJU is not equipped with a large enough technical team to respond to the needs of farmers, and also does not have the transport capacity to efficiently move seedling on a timely basis (MEDA, 2011). INCAJU also appears to play a very marginal role in terms of capacitating local processors in accessing markets.

Despite existing intentional support programmes for local suppliers, through programmes such as those run by IPEME, their impact seems limited, particularly with regards to creating links to retailers and consumer markets. A number of SMEs in the food and beverages sector especially find it hard to remain competitive (Cruz et al, 2016). IPEME developed a programme (between 2013 and 2016) for the purpose of transferring skills and technology in agro-processing. The institute has internal consultants, engineers and nutritionists equipped with

⁷⁶ See the MozaCaju impact report: <http://www.technoserve.org/files/downloads/mozacaju-impact-report.pdf>

the tools and models for processing products and regulatory procedures. This is done by identifying key product categories for which they have processing models and then identifying entrepreneurs, companies and students for training. The programme has 3000 beneficiaries but the challenge appears to be that following these interventions, less than 1% have got a small businesses in place, adopted new models, and upgraded their businesses. Furthermore, it still appears that only a few small firms are able to meet the requirements of supplying large retailers.

This section shows that there are a number of key challenges for developing local capabilities in Mozambique's food processing sector. While the overall requirement for developing Mozambique's local industries may be large, there are clear areas of intervention that could potentially create and strengthen local productive capacity. This also speaks to the need to develop dynamic linkages between small, local firms and large multinationals.

7. Conclusions and key policy implications

This paper assessed the opportunities for developing capabilities in Mozambique's food processing sector, and the role that multinational food processing firms and supermarket chains can play in enabling this. Presently, Mozambique's economic crisis has suppressed demand, causing a number of large and small processing companies interviewed to seek other markets for their products or cut production altogether. The government of Mozambique's focus on food processing as a priority sector is expected to ensure policies to support investment, infrastructure and skills development. But for the most part, and for an economy strongly oriented towards resource-based megaprojects, support for small scale businesses in food and agro value chains has had limited impact.

In the cashew industry there are opportunities for further processing and exports (including to South Africa) of more value-added cashews, as well as the potential to diversify into the production of other cashew containing products. In the market for beverages, opportunities largely come from the presence of large, lead firms and the potential for local sourcing and transferring skills and production technologies.

The research showed that the food and beverage industry is especially affected by the absence of licenses, safety and quality standards. The increasing integration of food industries globally also means that the industry needs to be able to serve and respond to highly competitive global markets. It is critical therefore that INNOQ is recognised as a standards regulator and established as the central institution for research, testing, certification and quality control. In the interim, a partnership can be created with an outside certifying body (in South Africa), where this can be done at reasonable cost. As has been proposed in recent research, harmonisation of standards across the region, such as those of the South African Bureau of Standards (SABS) and INNOQ, could increase the competitiveness of Mozambican products by bringing them to par with South African and international brands and therefore facilitating entry into supermarkets.

Similarly, another major constraint to the development of the national food processing industry is the limited support for local suppliers in accessing retail markets. The relatively low level of local sourcing by foreign firms (due to the inability of local suppliers to respond to requirements relating to quality, time delivery and competitive price) is evidence of this. Developing productive capabilities of local suppliers is insufficient if not done in tandem with supermarkets, with the aim of facilitating access to shelf space. Based on interviews conducted in Mozambique, there were strong indications of the absence of supplier development or similar

programmes. From a firm perspective, the incentive to develop local suppliers through supplier development programmes should be prioritised on the basis of reducing the heavy reliance on imports, which is essential for the appropriability of firm efforts in developing local suppliers. This also requires the participation of governments to foster a wide base of capable suppliers, and at a high level encourage the development of the local food industry as an industrial policy objective. The development of a retail code of conduct and supplier development programmes are essential in this regard.

There is also considerable scope for coordinated interventions with South African institutions for minimising constraints of the food processing industry caused by the availability and cost of packaging materials. The Centre of Excellence referred to above can potentially resolve packaging related constraints at a regional level.

Improvements in physical infrastructure are equally important for the growth of domestic supplier firms, and a lack of infrastructure facilities is hindering the growth of the food industry. This in particular relates to road and transport infrastructure in the northern regions of Mozambique which are key areas for production, transportation and trade of food products.

There is also need for facilities to expedite border processes. This however requires coordination at a more regional level. A re-orientation of strategies that create an enabling environment for goods to be efficiently transported within the SADC region can significantly contribute to greater regional integration. There have been a number of ongoing and new regional initiatives aimed at addressing these bottlenecks. The *MoveAfrica Initiative* led by NEPAD focuses on soft cross-border transport and logistics challenges, such as driving costs and increasing efficiency for companies and manufacturers engaged in intra-Africa trade. Furthermore, the recently signed AfCFTA aims to accelerate trade facilitation and ease cross-border trade, although quite far off and raises questions around why other blocs have not worked.

Mozambique is strategically located to export through ports. Increasingly however, ports are not efficiently operated, yet serve as a viable alternative to road freight. This research reveals that this is a challenge that the Mozambican government is aware of and efforts are being made to expand the capacity and efficiency of port infrastructure and make the Mozambican ports more competitive.

The majority of existing and potential local suppliers, if not multinational or South African owned firms, are in fact not large but small to medium sized enterprises, including those operating in informal markets. Such firms are less capable of developing internal capabilities to meet the needs of large companies and supermarkets, as this report has shown. Upgrading local suppliers not only requires the efforts of foreign firms, but also strong policy support. This emphasises the need for an institutional response to incorporate a food processing strategy specifically for SMEs, and also demands further coherence amongst existing programmes and initiatives.

SMEs also face more difficulties in acquiring the necessary financing for upgrading. The typical financing policy (which is not unique to Mozambique) is that commercial banks are unwilling to lend to the SME sector or charge prohibitively high interest rates. The solution is to create the right packages with a strong orientation towards the local SME sector. Lines of credit need to be subsidised and supported by an overall objective for developing local enterprises in key sectors such as food processing. Developing access to appropriate financing through

agreements with commercial banking is already rooted as a key strategic pillar for Mozambique's industrial policy, but greater implementation of this is required.

The presence of large, quality brands or multinationals in Mozambique's food industry creates stiff competition for smaller players. Technological and skill gaps between foreign firms and local suppliers and products can however be seen as an opportunity to capitalise on the presence of multinationals and import intangible assets. This requires deliberate programs to create linkages between firms and the development of explicit conditionalities on FDI set by government, with a stronger orientation towards local production and firms as skills and capabilities transfer has been fairly limited.

The research emphasises that developments in the food processing industry are also closely linked to the development of upstream industries, such as farming and supply of raw materials. Input quantities, qualities and prices are a major concern for processing firms and require considerable support at the producer level to ensure domestic production is not displaced by imports and that processing firms have access to adequate raw materials.

Potential interventions and initiatives emerging from the research are summarised in Table 7 below.

Table 7: Key interventions

Mozambique led interventions		
1	Linkage programmes	- Developing backward linkages between local SMEs and buyer firms (foreign investor firms) through formal partnerships governed by a legal instrument to support local procurement and upgrading
2	Access to finance	- Financiers to increase the availability of credit to the SME sector and re-orient existing financing tools - Specific funding lines to be allocated to SMEs for investments in food processing infrastructure and technologies
3	Road network facilities	- As the most frequently used means of transporting goods, the upgrading of road transport infrastructure in northern Mozambique is necessary to facilitate local trade and connect regional corridors
4	Agricultural / supply-side fundamentals	- Upgrade and improve efficiency at the agricultural level through improved farmer practices and techniques to ensure availability of and competitively priced raw produce
Co-ordinated interventions between Mozambique and South Africa		
5	Certification and innovation for packaging industries	- Engaging government to strengthen the national certifying institution (INNOQ) - Certification and food testing through partner institutions in South Africa - Harmonisation of standards at a regional level - Leveraging off the regional Centre of Excellence in packaging once established

7	Retail and access to markets	<ul style="list-style-type: none"> - Given market power and uneven bargaining positions, engage SA supermarket chains to develop systematic retail supplier development programmes. This could involve the inclusion of SMEs through supermarket house brands - Apportion shelf and fridge space to SMEs and especially locally produced “brand B” products.⁷⁷ - Increase efforts by INCAJU to include access to supermarkets as a key initiative - Leverage off the development of a regional retail code of conduct to regulate the relationship between supermarkets and suppliers
8	Agro-Industrial Development Zone <ul style="list-style-type: none"> - Consider adopting a cluster approach for the food sector, similar to the Beluluane Industrial Park⁷⁸ developed for the aluminum, gas and metals industries. - The industrial zone would ideally be equipped with support infrastructure and used as a mechanism to link agricultural production to processing and export markets 	

⁷⁷ This requires commitments from Coca Cola, like it did in South Africa (see Competition Tribunal Case <http://www.saflii.org/za/cases/ZACT/2016/68.rtf>) and the role of supermarkets in stocking ‘brand Bs’

⁷⁸ Established in 2000, Beluluane Industrial Park is a Public-Private-Partnership between the Mozambican Government Agency for Investment and Export Promotion and Swiss-Mozambican investors and is positioned around the Mozal Aluminium smelter

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Annexure 1: Interview list

Food and beverage firms	
1	Cervejas de Mozambique (AB-InBev)
2	Coca-Cola SABCO
3	Heineken
4	Companhia Industrial da Matola (CIM) / Premier FMCG
5	Tsokotsa (small dried fruit and jam producer)
6	Citrinos de Umbelezi (fruit producer)
Supermarkets and distribution	
7	Shoprite
8	Premier Spar
9	Mega Cash & Carry
10	Tropigalia (food distributor)
Government Institutions	
11	Ministry of Industry and Commerce
12	Ministry of Agriculture and Food Security
13	Institute for the Promotion of Small and Medium Enterprises (IPEME)
14	National Institute of Cashew Promotion (INCAJU)
Private sector associations and institutions	
15	Association of Producers and Importers of Beverages (APIBA)
16	Association of fruit growers (Fruitsul)
17	Associations of Small Importers from South Africa
18	Chamber of Commerce and Industry of Mozambique and South Africa (CCIMOSA)
19	Confederation of Economic Associations (Agribusiness)
International organisations	
20	Global Alliance for Improved Nutrition (GAIN)
21	Technoserve Mozambique (MozaCaju)
Development Finance	
22	Office for Small Business Consultancy and Support (GAPI)