



# INVESTING IN THE FUTURE

Financing and Risk Sharing Mechanisms for Agricultural and Forestry Value Chains in Mozambique



**THE WORLD BANK**  
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## Why use Financing Mechanisms?

Mozambique has significant potential to increase the productivity and efficiency of its agriculture and forest-based value chains. The absence of affordable financial services, however, is preventing communities, small scale forest operators, smallholder and small emerging commercial farmers (SECFs), and micro and small- to medium-size agribusinesses (MSMEs) from improving natural resource management and increasing growth potential.

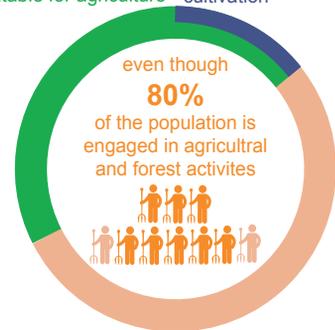
The lack of suitable infrastructure and relevant information regarding potential investments, as well as organizational and legal and regulatory constraints present further challenges.

Additionally, inaccessible roads, poor infrastructure and high operational costs limit the presence of banks and other financial institutions in rural areas. To address these challenges, the Government of Mozambique (GoM) and the World Bank Group are working together to improve access to capital for rural communities and households.

Through the Integrated Growth Poles Project, GoM and the World Bank, through the Mozambique Forest Investment Project (MozFIP) and the Agriculture and Natural Resources Landscape Management Project (Sustenta), are helping to harness market potential for forest and agricultural products, while contributing to sustainable natural resource management.

This brochure provides an overview of four innovative financing and risk-sharing facilities that leverage public and private financing, provide investment for various value chains and reduce risks for commercial institutions.

**45%** of Mozambique is suitable for agriculture but only **15%** is currently under cultivation



### Projects of the Government of Mozambique in partnership with the World Bank:

#### Integrated Growth Poles

**Amount:** US\$ 100 million

**Timeline:** 2013-2019

**Objective:** to improve the performance of the enterprises and small holders, focusing on the identified high growth potential (growth poles).

#### MozFIP

**Amount:** US\$ 47 million

**Timeline:** 2017-2022

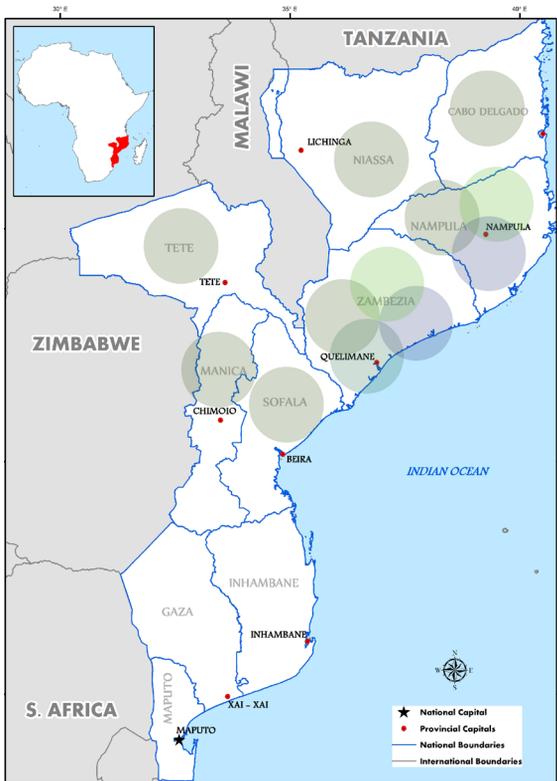
**Objective:** to improve the forest governance and promote a sustainable management of lands and forests.

#### Sustenta

**Amount:** US\$ 40 million

**Timeline:** 2016-2021

**Objective:** to integrate families into sustainable value-based agricultural and forestry chains.



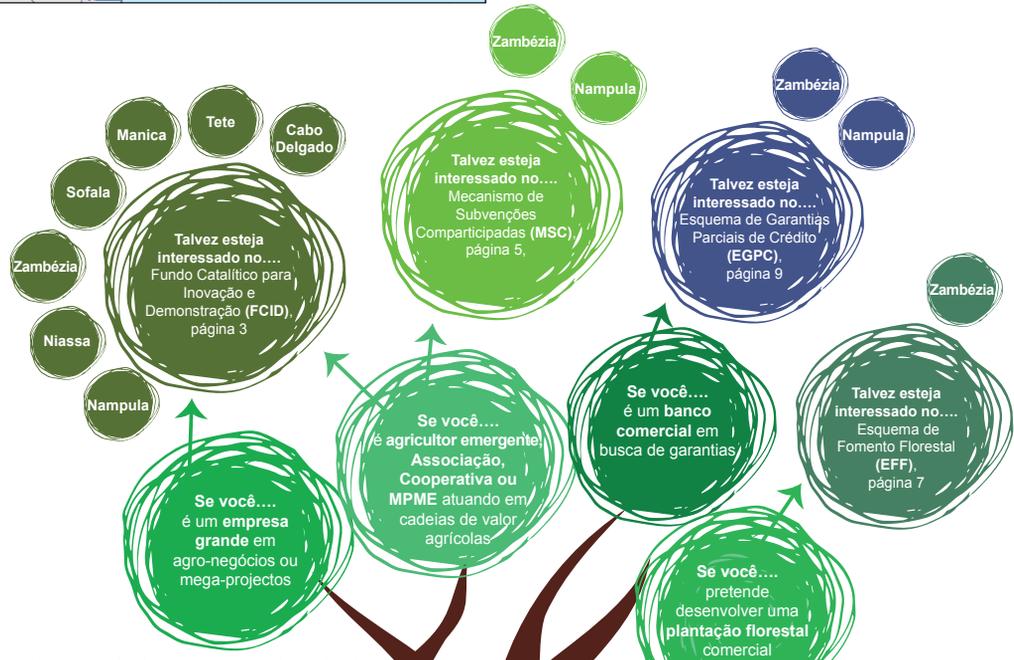
### Financing Mechanisms:

- The Growth Poles Innovation and Demonstration Catalytic Fund (Cabo Delgado, Niassa, Nampula, Zambézia, Tete, Manica, Sofala)
- Sustenta’s Matching Grant Scheme (Zambézia e Nampula)
- MozFIP’s Planted Forest Grant Scheme (Zambézia)

### Risk Sharing:

- Sustenta’s Partial Credit Guarantee Scheme (Zambézia and Nampula)

By combining funding with technical assistance and capacity building, the four funding and risk sharing mechanisms can have a large impact on the community income. These mechanisms are helping rural partners to sustainably transform subsistence agriculture and the forestry into profitable, market-oriented activities.



A decision tree (in Portuguese) assists potential applicants in deciding the financing mechanism most applicable to their situation.

## FINANCING

## Innovation and Demonstration

*Location:* Tete, Manica, Zambézia, Sofala, Niassa, Cabo Delgado, and Nampula

*Supported areas:*

- Agri-business
- Mega-projects

# The Innovation and Demonstration Catalytic Fund (FCID)

2015 - 2019

**\$US 24 million**

FCID creates sustainable relationships between companies, small holders and micro, small and medium enterprises (MSMEs) in the Zambezi Valley and Nacala Corridor.

FCID aims to improve:

- Coordination between small producers, MSMEs and medium and large scale enterprises.
- The dissemination of information about new techniques and technologies that can sustainably improve agricultural practices.
- The supply of seeds and other resources that can increase productivity.
- Essential infrastructure such as transport, irrigation and storage.
- Partnerships between small producers and agro-industrial investors to maintain business growth and develop sustainable value chains.

## What does FCID finance?

### Window 1

**Area:** Linking strong agribusiness companies and small holders to facilitate access to markets and spur growth.

**Grant size:** US\$ 0.5 a 1.5 million.

**Contribution:** Between 10% and 90% of the investment.

### Window 2

**Area:** Building partnerships between public and private service providers so that MSMEs can access large investment markets.

**Grant size:** US\$ 0.3 a 0.9 million.

**Contribution:** 100% of investment for public-private partnerships; 10-90% of investment for private applicants.

## Need more information?

### FCID:

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## Who can apply?

Under Window 1, the applicant must:

- ✓ Be a private company or cooperative / association registered in Mozambique, with accounting system (category A), and in operation for at least three years.
- ✓ Have a sales volume of at least USD 200,000 in the last three years or have invested at least twice the amount of the requested grant.
- ✓ Present the clear intention to establish a partnership with small producers.

Under Window 2, the applicant must:

- ✓ Be a private company and / or private service provider that meets the criteria of the applicants in Window 1, or:
- ✓ Be a public institute in partnership with a private company and / or private service provider that meets the criteria of the applicants in Window 1.
- ✓ Have a relevant institutional mandate in the context of the subject matter of the subproject.

## How are the candidates/proposals evaluated?

Two investment committees (Nacala Corridor and Zambezi Valley), composed of members from the public and private sectors, evaluate the proposals and approve the financing, using the following criteria:

- **Technical and financial analysis:** financially feasible and technically sound investment.
- **Impact on the income:** number of beneficiaries as well as the quantity and quality of the impact on farmers / MSMEs should be high.
- **Innovation and demonstration:** such as the use of new technologies or approaches to strengthen collaboration with small holders.
- **Institutional, operational, social and environmental sustainability:** must have organizational sustainability and be implemented in line with socio-environmental safeguards policies.

## Examples of supported activities:

- Producer support centers
- Investments in improved seeds
- Packing units
- Distribution mechanisms
- Processing units, warehouses and cold storage facilities
- Training programs
- Quality certification programs
- Training centers

## FINANCING

## Subsidized Grants

*Location:* Zambézia (Mocuba, Íle, Gilé, Alto Molócue, Gurué) and Nampula (Ribaué, Rapale, Mecuburi, Malema, Laláua)

*Supported areas:*

- Agricultural and forestry value chains

## Sustenta's Matching Grants Scheme (MSC)

2016 - 2021

**\$US 6.5 Million**

By improving the productivity of Small-Emerging Commercial Farmers (PACES) and micro, small and medium enterprises (MSMEs) in agricultural and forestry-based value chains (VCs), the MSC makes the VCs more inclusive and efficient. The MSC aims to:

- Strengthen the ability of small holders, PACES and MSMEs to participate in the commercial banking sector.
- Improve producer access to information, technology, practices and inputs.

### What does MSC finance?

MSC supports two types of trade linkages: (i) linking smallholders to agribusiness value chains through investments through investments by PACES; and (ii) supporting MSMEs in expanding key agribusiness and forestry value chains. Both should promote the inclusion of small producers in the targeted value chains. The MSC has two financing windows:

#### Window 1

**Designed for business plans between \$US 5,000 and \$US 100,000:** 50% donation and 50% personal contribution (own resources or commercial credit). The applicant must have a minimum of 10% of the total value of the business plan in cash.

**Example:** a business plan of \$80,000 - 40,000 donation, with at least \$8,000 in cash and up to \$32,000 in personal contribution (incl. commercial credit if applicable).

#### Window 2

**Designed for business plans between \$US 100,001 and \$US 1,000,000:** The rules in the first window apply up to \$100,000. The portion of the financing between \$100,000 and \$1,000,000 will receive 20% of the remaining amount, with the remainder in personal contribution (own resources or credit). The applicant must have a minimum of 10% of the total business plan value in cash.

**Example:** a business plan of \$200,000 - \$70,000 in donation, with at least \$20,000 in cash and up to \$110,000 in personal contribution (incl. commercial credit).

## Who can apply?

**PACEs** are individuals who:

- ✓ Have more than 2 ha of land, producing primarily for market.
- ✓ Have previous experience with mechanization in the production process.
- ✓ Consistently market their production (year after year) and have at least 10% cash to finance their business plan.

**MPMEs** are enterprises that:

- ✓ Have annual turnover of more than \$US 10,000.
- ✓ Have a minimum of 5 workers.
- ✓ Have at least 10% in cash to finance their business plan.

## How are the candidates/proposals evaluated?

The proposals will be evaluated by an Investment Committee, composed of representatives from the public and private sectors, with the FNDS as the Secretariat. The following criteria guides proposal evaluation:

- Technical approach
- Business plan
- Financial viability
- Operational sustainability
- Additionality
- Social and environmental sustainability

## Examples of supported activities:

- Machine equipment (tractors) and tools
- Inputs, including seeds, fertilizers, other materials
- Agricultural and livestock processing facilities
- Agricultural infrastructure, such as smaller irrigation works, water harvesting structures, warehouses, greenhouses
- Soil conservation measures, such as terraces and land leveling
- Working capital (up to 25% of the amount of the grant)
- Salaries

## Need more information?

**National Sustainable Development Fund (FNDS):**

Dânia Falcão

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## FINANCING

## Fostering Forests

*Location:* Zambézia (Distritos de Gurué, Íle, Alto Molócue, Mocuba and Mulevala)

*Supported areas:*

- Small and medium-scale commercial forest plantations (20-250ha)
- Degraded areas
- Restoration

## MozFIP's Planted Forest Grant Scheme (EFF)

2017-2022

**\$US 4.75 million**

The EFF is promoting commercial tree planting and the restoration of degraded areas in Zambézia province through performance-based payments and technical assistance. The Grant Scheme aims to:

- Improve the dissemination of information on sustainable business development opportunities to producers and communities.
- Increase access to information, technology, practices and inputs for small and medium producers.
- Support market incentives to protect and restore important areas.

### What does EFF finance?

The EFF provides performance-based payments (criteria includes measurable such the survival rate for planted trees) for establishing and maintaining tree plantations for commercial purposes, as well as restoring priority areas on the property. The EFF also supports selected local nurseries for training and capacity building. The payments are retroactive, conditional on verified performance and installments. The EFF supports short and long rotation crops, as follows:

#### Short Rotation

**Beneficiary contribution:** 50% of the estimated establishment costs, plus maintenance costs until the end of the rotation.

**EFF contribution:** 50% of establishment costs, ranging from a total of MTZ 900,000 to MTZ 11,250,000 in donation.

*(for plantations ranging from 20ha to 250ha, and an establishment cost estimated at MTZ 90,000 / ha)*

## Long Rotation

**Beneficiary contribution:** 35% of the estimated establishment costs, plus maintenance costs until the end of the rotation.

**EFF contribution:** 65% of establishment costs, ranging from a total of MTS 1,170,000 and MTS 14,625,000 in donation.

*(According to plantations ranging from 20ha to 250ha, and an establishment cost estimated at MTS 90,000 / ha)*

## Need more information?

### National Sustainable Development Fund (FNDS):

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## Who can apply?

The EFF is open to small- and medium-scale investors in tree plantations wishing to establish and manage at least 20 ha of commercial plantations over a period of 2-3 consecutive years. Candidates include:

- ✓ Potential producers of small and medium-sized plantations, including individuals, companies and other organizations registered in Mozambique or with relevant valid permits to operate in the country.
- ✓ Formally organized communities with a minimum of 20 ha.
- ✓ Non-formally organized communities but with an interest in the development of sustainable plantations will be able to access the EFF under specific conditions.

The applicant must have:

- ✓ A valid DUAT certificate with a minimum of 20 ha of registered land.
- ✓ Area available for sustainable forestry, according to a forest management plan, in compliance with the Mozambican legislation.
- ✓ The available area must be reasonably accessible for supervisory purposes and technical feasibility.

## How are the applicants evaluated?

- Once the applicant's eligibility is confirmed, they must produce a Forest Management Plan (FMP) according to established criteria.
- The FMP, verified by a service provider, must be analyzed by an Investment Committee, which ensures its technical and economic viability.

## Examples of supported activities:

- Establishment of plantations for timber industry (sawn timber, posts, among other purposes).
- Establishment of energy plantations (charcoal).
- Establishment of plantations for the pulp and paper industry.
- Restoration of degraded areas by means of ecological techniques.

## RISK SHARING

### Partial Credit Guarantee

*Location:* Zambézia (Mocuba, Íle, Gilé, Alto Molócue, Gurué) and Nampula (Ribaué, Rapale, Mecuburi, Malema, Laláua)

*Supported areas:*

- Agricultural and forestry value chains

## Sustenta's Partial Credit Guarantee Scheme (EGPC)

2018 - 2021

**\$US 2.2 million**

By reducing risks to commercial creditors who are facilitating access to financing for PACEs, agribusiness MSMEs and producer organizations, the EGPC:

- Reduces agricultural and forestry value chain loan risks associated with increasing access to finance.
- Encourages financial institutions to increase loans to beneficiaries participating in the agricultural and forestry value chains.



## Need more information?

### GAPI:

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## What does the EGPC finance?

In the event of default by the beneficiary, the EGPC covers 50% of a loan obtained by a PACE, MPME or producers organization from a commercial bank.

## Who can apply?

The EGPC is managed by GAPI and as such, commercial banks interested in partial guarantees should contact GAPI for more information.





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Government of Mozambique



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