

High fuel prices suffocate small and medium farmers



Background

The debate over the agrarian sector is not only important for Mozambique, but for the world in general, and especially for Africa. The sector is recognized as key to broad-based economic growth, poverty reduction,

and food security in sub-Saharan Africa (Chilonda, Machethe, & Minde, 2007)¹. As the backbone of many African economies, this sector generates on average 25% of the Gross Domestic Product (GDP) in Sub-Saharan Africa and con-

¹ Chilonda, P., Machethe, C., & Minde, I. (2007). *Poverty, Food Security and Agricultural Trends in Southern Africa*. Pretoria: Regional Strategic Analysis and Knowledge Support System

tributes about 44% to employment generation for the region². Studies indicate that growth in agriculture has the potential to reduce poverty two to three times more than growth in any other sector.

Yet, Sub-Saharan Africa remains the only region in the world where food insecurity and poverty have worsened over time³. The poor performance of agriculture in productivity and competitiveness represents a serious structural challenge for the continent, which must deal with its demographic transition and compete in an increasingly globalized and more competitive market for agricultural and agro-food products⁴.

In Mozambique, the agricultural sector is, according to the Constitution of the Republic, the basis for development, and industry as the driving sector of economic activity. However, agriculture has not shown very encouraging signs since the independence in 1975. Between the years 1991 and 1999, the economic structure of Mozambique, in terms of percentage of the GDP, was dominated in about 35.5% by agriculture.

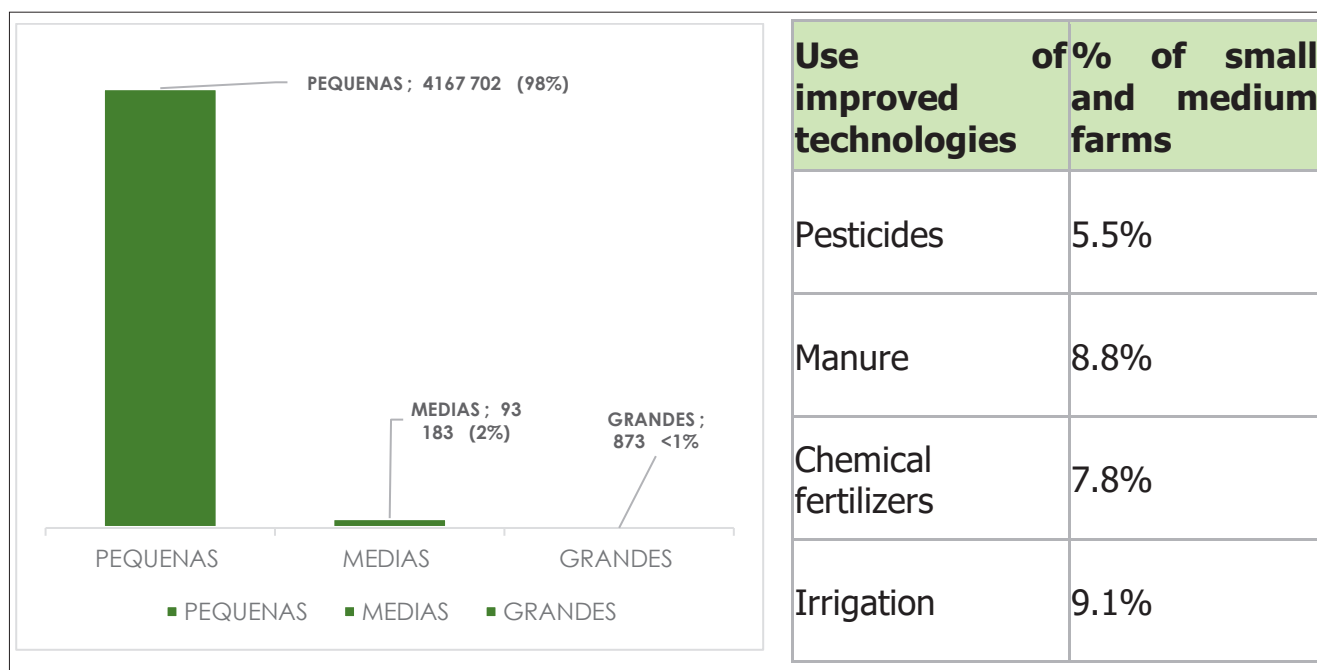
That percentage has shrunk over time, now contributing only 20%.

Instead of being associated with the diversification of the economy, the reduction of agriculture in the economic composition happens in a context in which the sector still presents enormous challenges, low productivity being one of the major issues, as it is typically subsistence family farming, in which the use of improved technologies does not exceed 10%, as presented in the table below.

According to the Integrated Agrarian Survey (2020), only 873 are large-scale farmers, representing less than 1%, and 93 183 are medium-scale farmers, representing only 2% of the total. The group of small-scale farmers includes those who have cultivated area not exceeding 10 hectares and those who have no more than five hectares for the case of irrigated area (orchards, horticulture, and floriculture). Medium-sized farmers are those who have between 10-50 hectares of non-irrigated cultivated area and between 5-10 hectares of irrigated area.

Graph 1: Categorization of farmers by scale of production

Table 1: % of small and medium farms using improved technologies



Source: Integrated Agrarian Tax (2020)

² Faria, J. (2021, April 23). *Employment in agriculture in Africa 2010-2020*. Retrieved from Statista: <https://www.statista.com/statistics/1230868/employment-in-agriculture-as-share-of-total-in-africa/>

³ SESRTCIC. (n.d.). *Food Security and Poverty Alleviation Initiative in the OIC Member States of Sub-Saharan Africa: A Preamble to Cassava Integrated Project*. Ankara: Statistical, Economic and Social Research and Training Centre for Islamic COun.

⁴ Devèze, J. C. (2011). *Challenges for African agriculture*. Washington, DC: Agence Française de Développement and the World Bank.

The enormous dominance of smallholder farmers means that Mozambique remains in the position of net food importer/food dependency, in a situation where food exports are outstripped by imports. Food dependence reveals the country's vulnerability to international food market shocks.

With this scenario, one of the main challenges recognized by the Government is to transform subsistence agriculture into a market-oriented commercial agriculture. And this includes promoting a reflection on the impact of fuel prices

on food production in Mozambique.

It was within this context that CDD, with the support of OXFAM Mozambique, brought together staff from the Ministry of Agriculture and Rural Development, representatives of other relevant state institutions, small producers from the Zambezi Valley, and civil society to discuss the impact of fuel prices on small farmers. With the theme "What measures should be implemented to avoid worsening the food crisis in times of multiple shocks", the debate took place on August 18th in Maputo city.

“The debate on fuel prices should be extended to its impact on farmers’ activities,” Adelson Rafael, OXFAM Mozambique



“When we talk about fuel our discussion usually focuses on issues related to the impact on public transport prices, but often we do not have the opportunity to make this discussion at the level of production costs for farmers,” argued Adelson Rafael. For the representative of OXFAM Mozambique, discussing about the production costs of farmers is an issue that concerns everyone, because the existence of humanity is linked to the food process.

Adelson Rafael recalled that Mozambique had, from January to July 2022, three increases in fuel prices. “That rise has a direct relationship in the agricultural mechanization process, especially when we talk about small farmers who use motor pumps for irrigation.” But the impact does not end there: “The high fuel prices also affect the process of production logistics, that is, getting from the production area to the market.”

The price of fuel is the main threat to agriculture because it affects the dynamics of the entire value chain”, Dr. Amílcar Pereira, representative of the Ministry of Agriculture and Rural Development



The Ministry of Agriculture and Rural Development representative started by considering the debate timely precisely because it brought together small producers, civil society and Government representatives to reflect on a matter that is also a concern of the authorities.

The rise in fuel prices takes place in a context where Mozambique is still suffering from the effects of the pandemic COVID-19, but also from several extreme events as a result of climate change, with some regions experiencing droughts. The conflict between Russia and Ukraine,

in addition to worsening the prices of fuel and major food products, is impacting the prices of inputs such as seeds, fertilizers and other products relevant to the agricultural sector, increasing the risks of food insecurity.

“When questioned about how this crisis is affecting Mozambique, I have answered several times that the main element that brings concern is not the availability of fertilizers, is not the availability of seeds, but the impact on fuel prices. The price of fuel affects all the value chain dynamics.”

“Government should ease fuel costs on small farmers and introduce simplified formalization systems.”

Dimas Sinoia, CDD Researcher



To identify the main challenges faced by smallholder farmers in the Zambezi Valley, CDD, in partnership with NANA and OXFAM, conducted interviews with smallholder farmers in the Zambezi Valley in Zambézia Province, specifically in the districts of Alto Molócuè, Mocuba, and Gurué.

Some of the challenges identified include weak bargaining power, poor market access, as well as the impact of rising fuel prices impacting production and transportation costs.

Of more concern is the impact of fuel prices on agricultural activity. This year, the Energy Regulatory Authority (ARENE) has already announced three times the readjustment of fuel prices, whose increases were justified by the behavior of crude oil prices in the international market and the shortage in the supply of oil due to the conflict in Ukraine.

The current scenario of repeated fuel price increases is frightening for small farmers who have fuel as an important production factor. Due to the lack of formal registration, they are not eligible for any tax benefits, so they are subject to high fuel costs in rural areas.

One option would be to simply pass the fuel price on to the end consumer, however small farmers have weak bargaining power, which makes them unable to propose fair prices. “Some small farmers simply do not have enough money to afford the higher production costs.

These challenges, if not taken care of, could worsen the food crisis in the coming months. CDD therefore argues that the government should introduce measures to reduce the impact of fuel prices on the agricultural sector. Measures to alleviate the impact of fuel on farmers is

common in other countries. This is the case of Portugal, which approved a discount on fuel prices for agriculture.

Although there are some measures aimed at the sector, the lack of a local system of formalizing/certifying small farmers means that they, who represent the majority, do not benefit from many of the measures adopted. Therefore, it is

recommended to create simplified registries with the local administration that grant the right of small farmers to benefit from tax incentives.

The CDD researcher ended by mentioning that the World Bank's April 2022⁵ Commodity Market Outlook points out that the impact of the war on prices could remain until the end of 2024, exacerbating food insecurity and inflation.



Bento Washisso, representative of the Confederation of Mozambique Economic Associations (CTA)

“The private sector has been discussing the impact of fuel prices on the agricultural sector for quite some time. So far what has been achieved is only a subsidized price for farmers who have organized accounting. Now the challenge is to ensure the unification of the fuel price so that the discount is subject to fewer requirements.”



Izidro Macaringue, representative of the União Nacional dos Camponeses (UNAC)

“The cost of fuel is associated with a set of difficulties that were already faced by small farmers, including poor mechanization, poor market access, coupled with weak infrastructure, especially in rural areas that hinder the flow process. The recent measures adopted in the scope of the Economic Acceleration Program (PAE) directly benefit the large producer, which is not bad, but the Government should create an operational matrix that allows these benefits to reach the small farmers, since the objective of the private sector is profit”.

⁵ <https://www.worldbank.org/pt/news/press-release/2022/04/26/food-and-energy-price-shocks-from-ukraine-war>



Loureço Joaquim, onion producer in Gurué

The increase in fuel prices is a problem that threatens the producer. I am having high costs to do the irrigation with the motor pump. They are unsustainable especially when combined with the costs of seasonal workers. Considering that we are in the production phase and the second phase of marketing is missing, these costs show that small producers will have a big loss."



Onion producer in Alto Molócuè

"We were on a good pace before the rise in fuel prices. Currently, in Molócuè 1kg of onion costs between 30 and 35 meticaís. With these increases in fuel prices, adding all the production costs and then the post-harvest transport to the market, we are out of money. In other words, we are producing to benefit the market."



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