

# Competitiveness of Cash Crops in Mozambique: The Case of Cashew Nuts

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**ACA World Cashew Festival and Expo**

Maputo, 23 September 2015

# Outline

- Objectives and methodological approach
- Policy context
- Commodity context
- Main findings

# Objective and Methodological Approach

- Objective T1
  - Measure the impact of agricultural policies **and domestic market structure** on prices paid to farmers and other market actors
- Methodological approach
  - **Grounded on the theory of one price.** We look at the difference between observed prices and “reference prices”
  - “Reference prices” refer to prices that should have been paid to farmers in the absence of domestic policies and market distortions
  - Period of analysis: 2005 through 2013

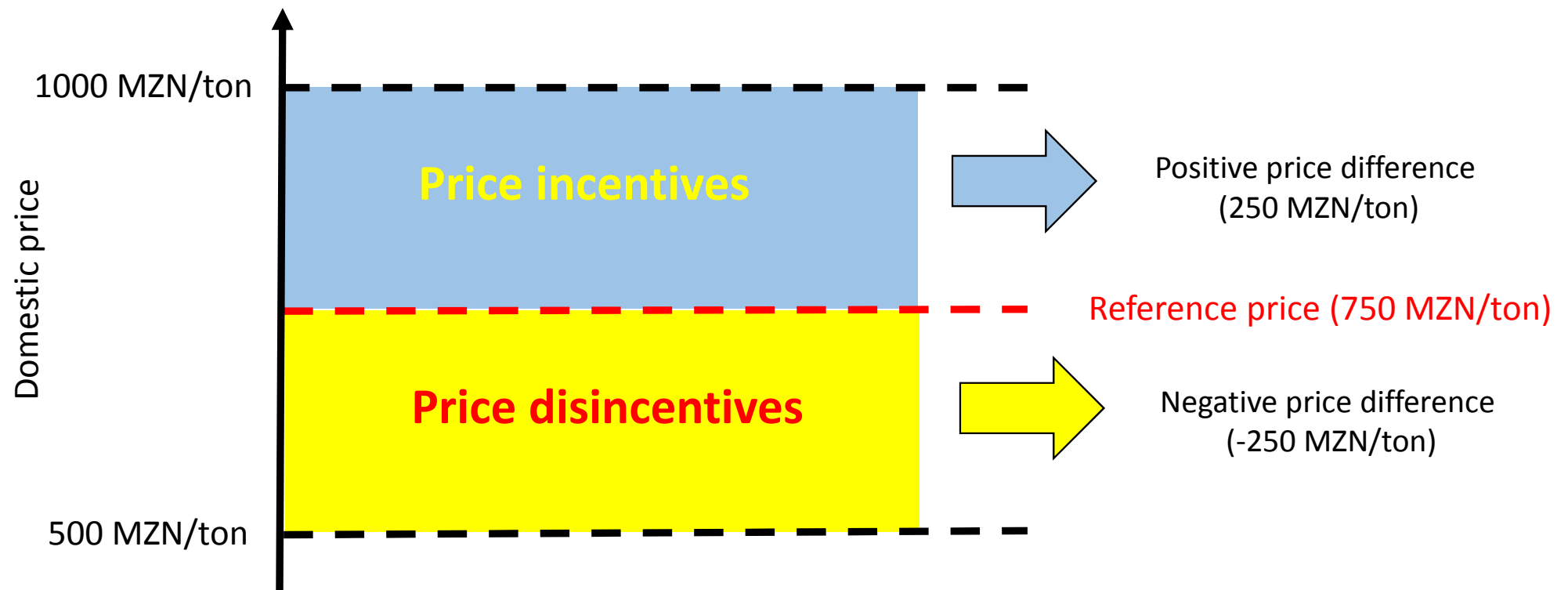
**Slide 3**

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**T1** NOT SURE ABOUT " IF MARKET STRUCTURE IS MEASURED. SUGGEST DELETING THE TEXT IN RED. BUT CAN SAY SOMETHING ABOUT STRUCTURE ON THE OBSERVED OUTCOME

Tostao, 22/09/2015

# Objective and Methodological Approach



Price (dis)incentive measured by the vertical difference between domestic price and reference price

# Policy Context

| <b>Year</b>        | <b>Policy</b>  | <b>Objective</b>   |
|--------------------|--|--|
| <b>1975</b>        | <b>Ban on exports</b>  | <b>Encourage domestic processing</b>   |
| <b>1987-1990</b>   | <b>The Economic Rehabilitation Program introduced</b>  | <b>Reduce controls and create market incentives to production and trade</b>  |
| <b>1991</b>        | <b>Elimination of Government controls on price for raw nuts paid by the processing industry</b>              | <b>Gradual liberalization of process Get the prices right</b><br><br><b>Increase producer prices and stimulate trade</b><br><br><b>preferential buying of raw cashew nuts by domestic processors</b><br><br><b>Stimulate domestic industry</b><br><br><b>Protect the processing industry</b><br><br><b>Creation go INCAJU (1998)</b> |
| <b>1991-1992</b>   | <b>ban on exporting raw cashews Lifted<br/>export quota of 10,000 tons introduced<br/>60% export tax set</b> |  |
| <b>1992–1993</b>   | <b>60% export tax lowered to 30% percent<br/>Export quota maintained at 10,000 tonnes.</b>                   |  |
| <b>1993–1994</b>   | <b>Registered exporters given an option to export additional quantities</b>                                  |  |
| <b>1994</b>        | <b>Complete privatization of Caju de Moçambique</b>  |  |
| <b>1994–1995</b>   | <b>Export quota lifted</b>   |  |
| <b>1995-1996</b>   | <b>Export tax reduced to 20%</b>   |  |
| <b>1996–1997</b>   | <b>Export tax reduced to 14%</b>   |  |
| <b>19898</b>       | <b>Creation of Incaju</b>  |  |
| <b>1999 – date</b> | <b>Export tax set to 18%</b>   |  |

# Commodity Context



# Commodity context

- Top three agricultural commodities exported from Mozambique
  - Tobacco (27% of total export value of agricultural products)
  - Cashew nuts (17%)
  - Cotton (16%)
- About 45% of domestic production is marketed. Main channels are:
  - Raw cashew nuts exports (32%)
  - Domestic processing (27%)
  - Other use (27%)
  - Waste (13%)

## Commodity context

- India is the main destination of raw cashew nuts exported from Mozambique, accounting for over 85% of total exports
- Government of Mozambique gives some policy incentives to domestic processing industry
  - Export of raw cashew subject to **18% export tax since 1994**<sup>T2</sup>
  - Preferential marketing of raw cashew nuts for domestic processing over raw exports **since 19???**

**Slide 9**

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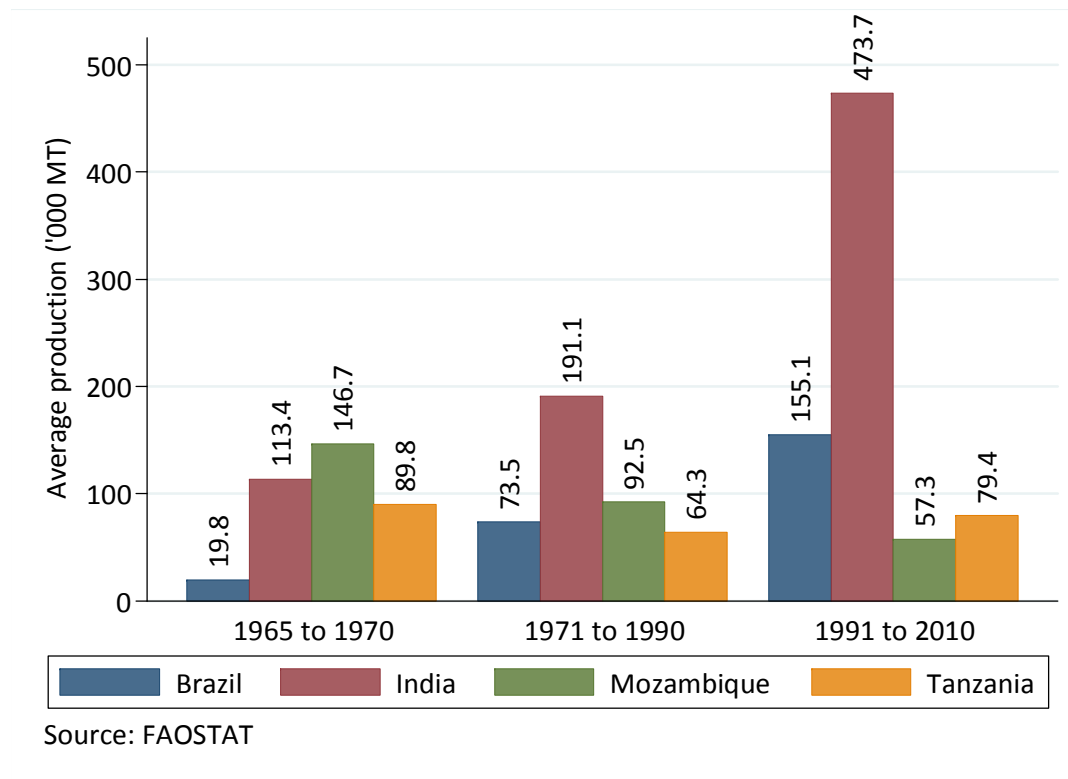
**T2**

See the tabe under "policy Context" above. 18% kicked in in 1999

Tostao, 22/09/2015

# Commodity context

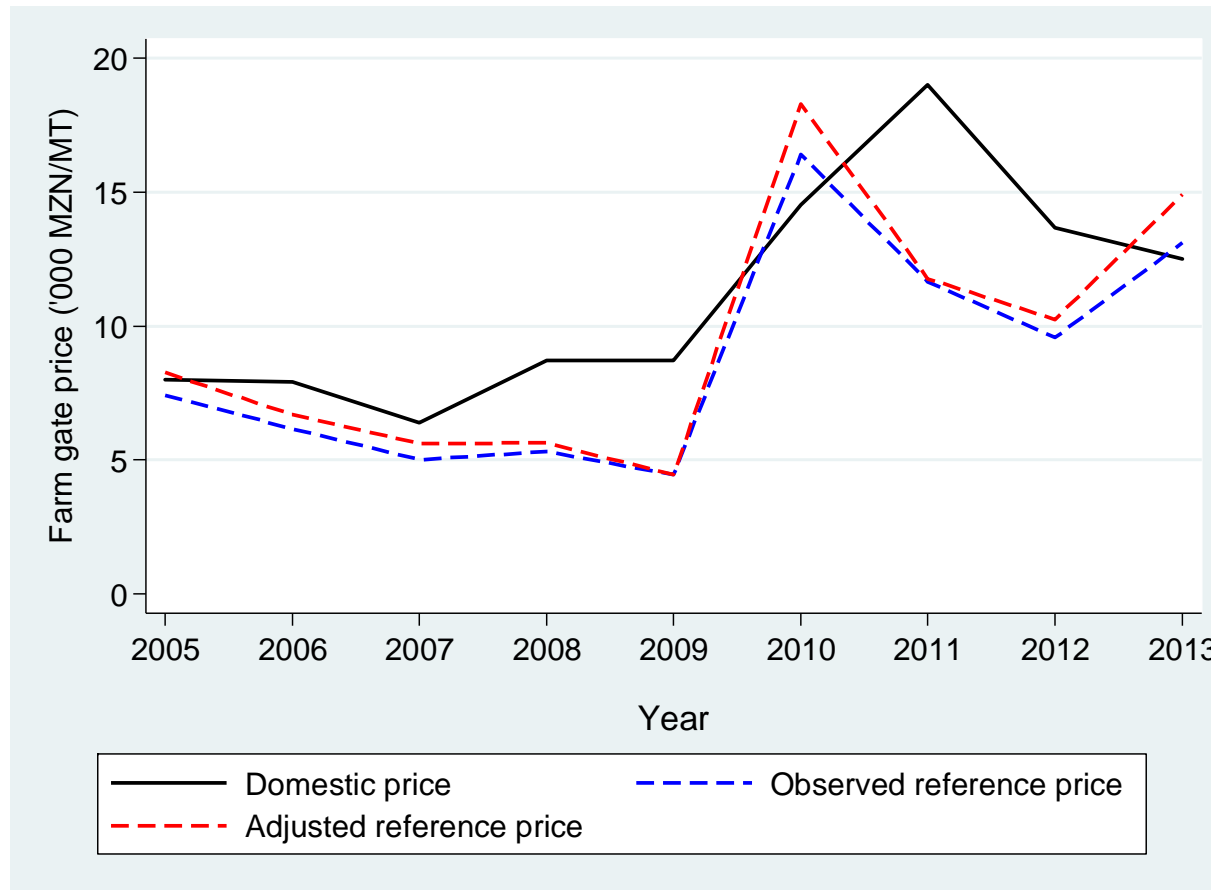
- Cashew production has been sharply declining



# Main Findings

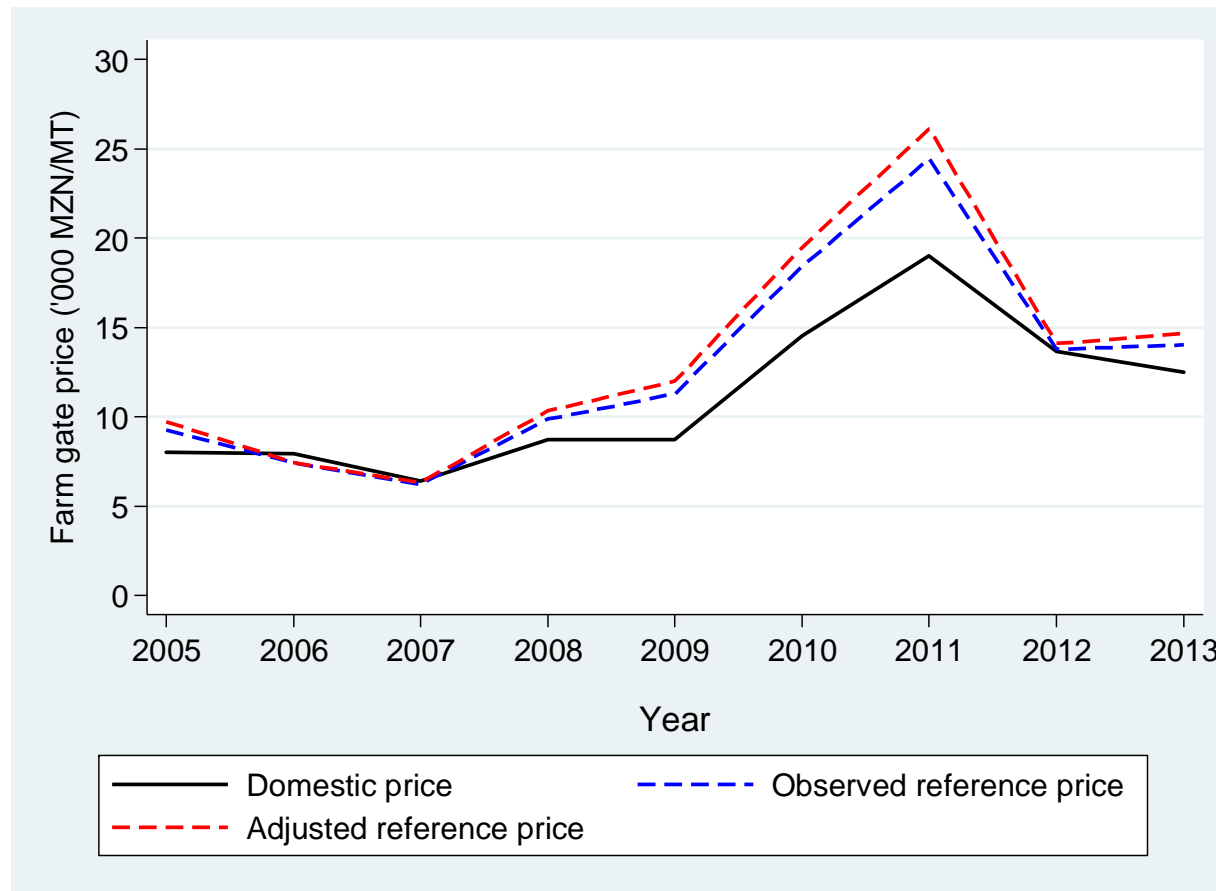
# Results: Processed cashew nuts

## Domestic versus reference price



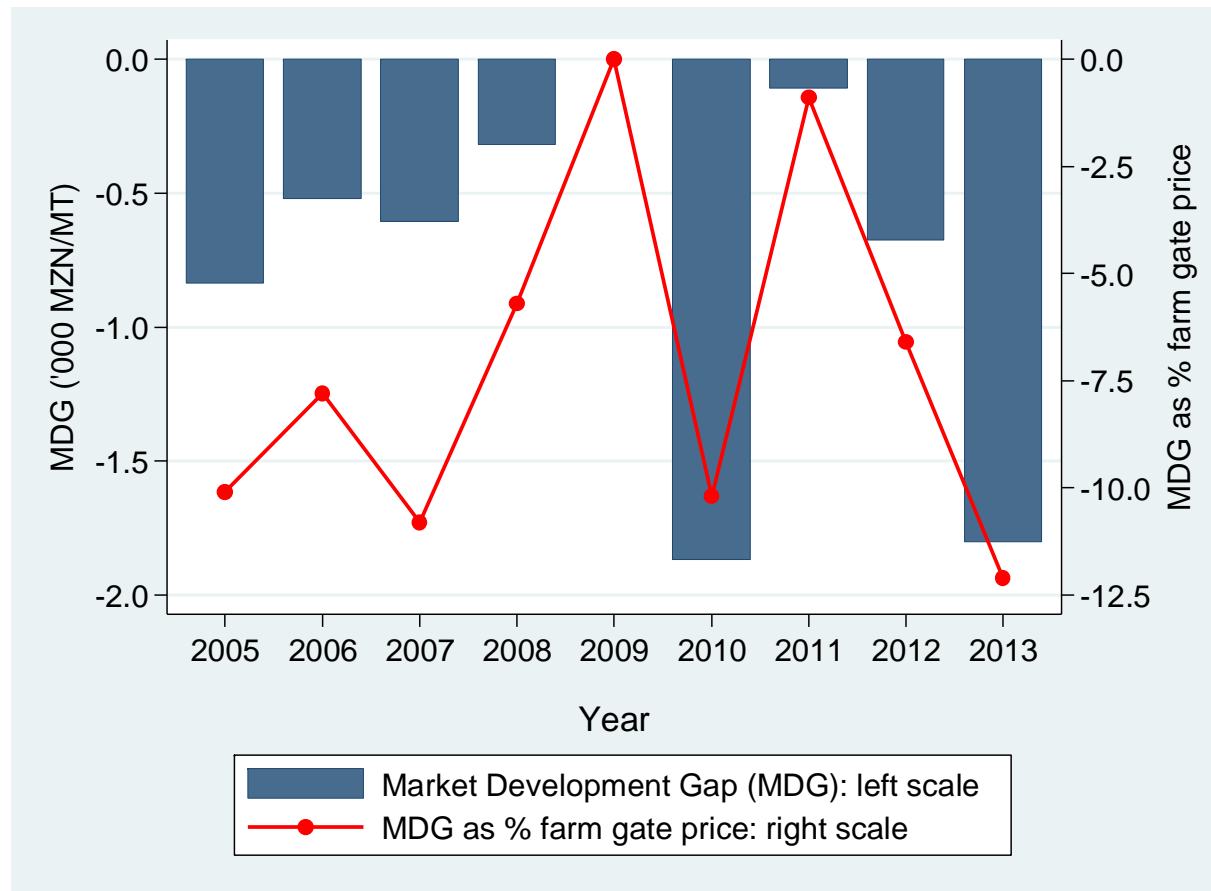
# Results: Raw cashew nuts

## Domestic versus reference price



# Results: Processed cashew nuts

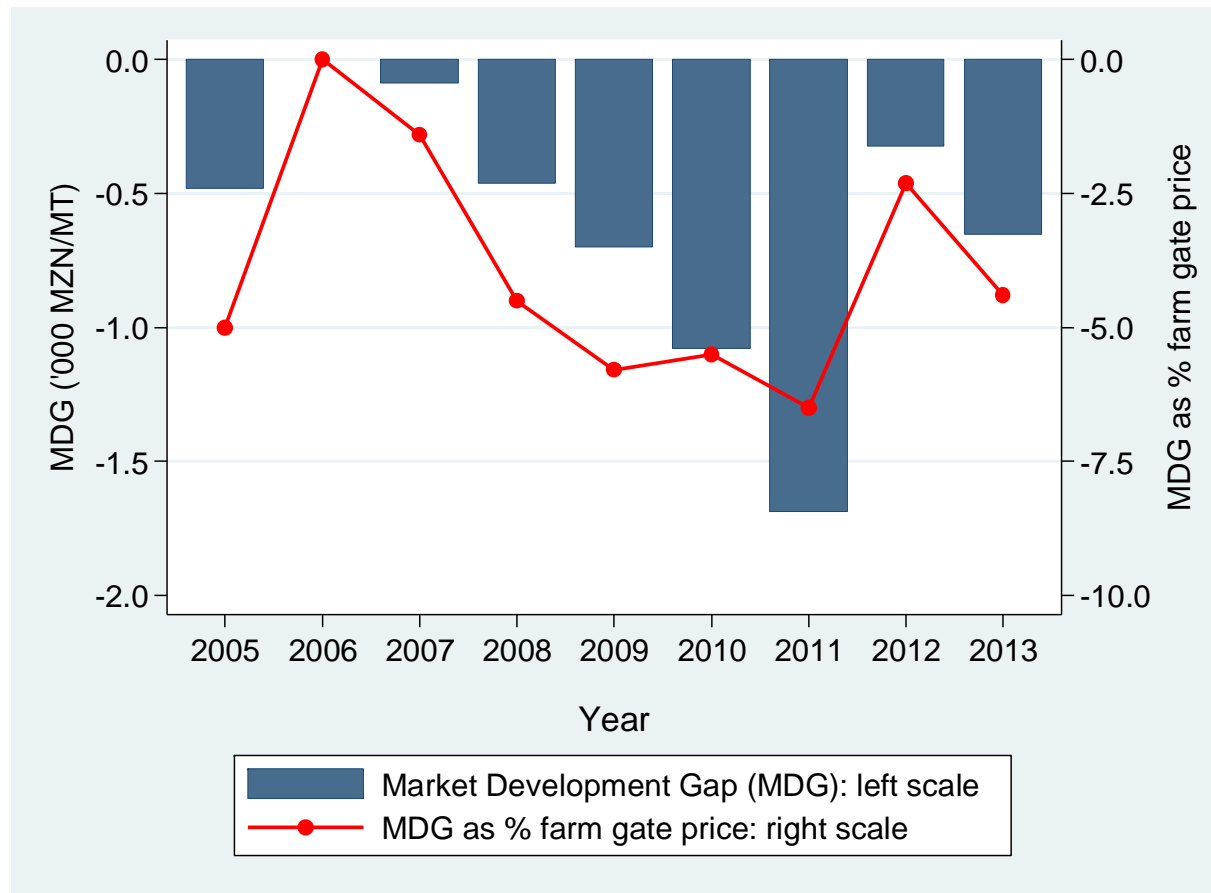
## Market Development Gap (MDG)





# Results: Raw cashew nuts

## Market Development Gap (MDG)



## Take home messages

- Domestic policies and market structure had two opposite effects on price incentives to farmers:
  - Export tax on raw cashew resulted on price disincentives to farmers as they received prices lower than what they would have received in the absence of export tax
  - Export tax also provided an implicit protection to domestic processors of raw cashew nuts, trickled down the value chain, ultimately resulting on price incentives to farmers

## Take home messages

- Market inefficiencies in both market channels (processed and raw cashew nuts) resulted in excessive profit margins for both domestic processors and traders:
  - These inefficiencies represented implicit losses to farmers resulting from market power of processors and traders which might have been enhanced by the preferential buying for domestic processors