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

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Outline

• Objectives and methodological approach
• Policy context
• Commodity context
• Main findings
Objective and Methodological Approach

• Objective
  • 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
NOT SURE ABOUT "IF MARKET STRUCTURE IS MEASURED. SUGGEST DELETING THE TEXT IN RED. BUT CAN SAY SOMETHING ABOUT STRUCTURE ON THE OBSERVED OUTCOMES"
Objective and Methodological Approach

Price incentives

Positive price difference (250 MZN/ton)

Reference price (750 MZN/ton)

Negative price difference (-250 MZN/ton)

Price (dis)incentive measured by the vertical difference between domestic price and reference price
Policy Context
<table>
<thead>
<tr>
<th>Year</th>
<th>Policy</th>
<th>Objective</th>
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</thead>
<tbody>
<tr>
<td>1975</td>
<td>Ban on exports</td>
<td>Encourage domestic processing</td>
</tr>
<tr>
<td>1987-1990</td>
<td>The Economic Rehabilitation Program introduced</td>
<td>Reduce controls and create market incentives to production and trade</td>
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<td>1991</td>
<td>Elimination of Government controls on price for raw nuts paid by the processing industry</td>
<td>Gradual liberalization of process Get the prices right</td>
</tr>
<tr>
<td>1991-1992</td>
<td>ban on exporting raw cashews Lifted</td>
<td>Increase producer prices and stimulate trade</td>
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<td></td>
<td>export quota of 10,000 tons introduced</td>
<td></td>
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<td></td>
<td>60% export tax set</td>
<td></td>
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<tr>
<td>1992–1993</td>
<td>60% export tax lowered to 30% percent</td>
<td>preferential buying of raw cashew nuts by domestic processors</td>
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<td></td>
<td>Export quota maintained at 10,000 tonnes.</td>
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<tr>
<td>1993–1994</td>
<td>Registered exporters given an option to export additional quantities</td>
<td>Stimulate domestic industry</td>
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<tr>
<td>1994</td>
<td>Complete privatization of Caju de Moçambique</td>
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<tr>
<td>1994–1995</td>
<td>Export quota lifted</td>
<td>Protect the processing industry</td>
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<tr>
<td>1995-1996</td>
<td>Export tax reduced to 20%</td>
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<tr>
<td>1999 – date</td>
<td>Export tax set to 18%</td>
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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
  • Preferential marketing of raw cashew nuts for domestic processing over raw exports since 19???
See the table under "policy Context" above. 18% kicked in in 1999
Tostao, 22/09/2015
Commodity context

• Cashew production has been sharply declining

![Bar Chart showing average cashew production (in 000 MT) from 1965 to 2010 for Brazil, India, Mozambique, and Tanzania.]

Source: FAOSTAT
Main Findings
Results: **Processed cashew nuts**

Domestic versus reference price

![Graph showing domestic versus reference price for processed cashew nuts over years from 2005 to 2013. The graph includes three lines: Domestic price, observed reference price, and adjusted reference price. The y-axis represents the farm gate price in '000 MZN/MT, and the x-axis represents the year from 2005 to 2013.](image-url)
Results: Raw cashew nuts

Domestic versus reference price
Results: Processed cashew nuts

Market Development Gap (MDG)

Year

MDG (MZN/MET)
-0.5
-1.0
-1.5
-2.0
0.0

MDG as % farm gate price
-2.5
-5.0
-7.5
-10.0
-12.5
0.0

Market Development Gap (MDG): left scale
MDG as % farm gate price: right scale
Results: Raw cashew nuts

Market Development Gap (MDG)

Year
2005 2006 2007 2008 2009 2010 2011 2012 2013

MDG (000 MZN/MT)
0.0 -0.5 -1.0 -1.5 -2.0 -2.5 -3.0 -3.5 -4.0 -4.5 -5.0 -5.5 -6.0 -6.5 -7.0 -7.5 -8.0 -8.5 -9.0

MDG as % farm gate price
0.0 -0.5 -1.0 -1.5 -2.0 -2.5 -3.0 -3.5 -4.0 -4.5 -5.0 -5.5 -6.0 -6.5 -7.0 -7.5 -8.0 -8.5 -9.0

Market Development Gap (MDG): left scale
MDG as % farm gate price: right scale
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 that 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