Resolving Policy Trade-offs and Conflicts in Mozambique’s Emerging Tobacco Sector: What Can We Learn?

Rui Benfica
The World Bank, Maputo-Mozambique

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Outline

• Context

• The case of a Tobacco Export Tax Policy in Mozambique

• Lessons for Researchers?
Context

• Long standing policy bias in favor of large agro-businesses, at the expense of smallholders (cashew, cotton, tobacco, …)
  – Regulatory framework in Tobacco gives overwhelming power to companies running Contract Farming schemes with smallholders

• Fragmented policy making in MINAG
  – Each Directorate with Policy making Mandate
  – Vulnerable to special interests/Lobbies

• On-going efforts on capacity building in policy analysis within MINAG

• Fast growing tobacco sector
  – Increase in production and number of growers
  – All production exported raw (over 50,000 tons)
  – A processing facility constructed (capacity: 50,000 tons)

The Case of an Export Tax Policy
Course of Events

• The Export Tax Policy Proposal

• The “consultation” process

• The Flash: Informing the policy dialogue
The Export Tax Policy Proposal

• Policy proposed by DINA under pressure from one company that invested in processing
  – All raw tobacco to be subjected to a 10-20% export tax

• Without prior consultation, introduced as a GOM idea to
  – Increase investment in value added processing to
    • Increase employment in processing and other activities
    • Increase tax revenue from taxing formal employment
    • Enable GOM to invest in the sector

• Proponents suggest that policy will benefit all stakeholders

The “Consultation” Process

• DINA calls for stakeholder meeting and informs about the GOM decision
  – Presents a non-convincing analysis
  – Suggests next steps as
    • Define the tax level (10 or 20%)
    • Drafting of the legal instruments to enact

• No consideration or suggestion for a discussion on alternatives to reach the same objectives

• At no point Research/policy analysis units called for input on policy implications

• Farmers not consulted (common practice!!!)
Informing the policy dialogue

• **Flash:** “How to avoid killing the chicken that lays the golden eggs…”
• Important to consider Key elements regarding structure and sector dynamics
  – Market structure => Monopsony/Monopoly
  – Only one company will be exempt from the tax
  – Production volume versus processing capacity
  – Short versus long run effects on stakeholders
• Losers:
  – All tobacco companies, except one
    • With reduced ability to invest in short and long run
    • If not exported, domestic transport costs high (dispersion)
    • Likely reduction in production/profits and/or lower prices to growers
  – Smallholders
    • Lower prices (tax burden passed on from CF firms)
    • Limited expansion of CF schemes/limited access
• Winners:
  – Company with processing facility (increased volume/monopoly pricing)
  – Government in the short run with tax revenue
  – Urban industrial/services employees
• Need to find alternative options, find out the real needs of investors

Lessons for researchers to be more effective in the policy process

• Mozambique does not have a well defined policy making process
  – Limited opportunities for broad stakeholder consultation
  – Input limited by urgency and special interests going “straight to the top”
  – Farmers (the larger stakeholder group) always excluded

• **When engaged**, Researchers need to use effective Communication
  – Clear and consistent language
    • Link with well stated national policies/programs (PRSP)
    • Use of basic economic concepts for illustration (benefit/cost, impact analysis)
    • Raise awareness about Short versus long run policy implications
  – Appropriate channels
    • Personal communications
    • Policy brief series, now replicated…(short, clear and straight to the point)
    • The power of Media (if needed…) to call for attention!!!
Lessons…(continued)

• Ensure that policy makers at all levels are well aligned with research units:
  – Regular solicitation of priority research areas relevant for policy
  – Active interaction and research/policy meetings at all levels

• If that fails, is it worth Applying “Say’s Law”?
  – Create future demand from Policy Makers with current unsolicited supply of research based policy recommendations

• Need for an inclusive consultation process when debating policy issues of national interest
  – Include all relevant groups, including farmers
  – Keep in mind what the national interest is (e.g., sustainable economic growth and poverty reduction)
  – Policy research units to play a key role