



# 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