Improving Maize Marketing and Trade Policies To Promote Household Food Security in Central and Southern Mozambique

By

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FANRPAN Multi-Stakeholder Public Policy Dialogue

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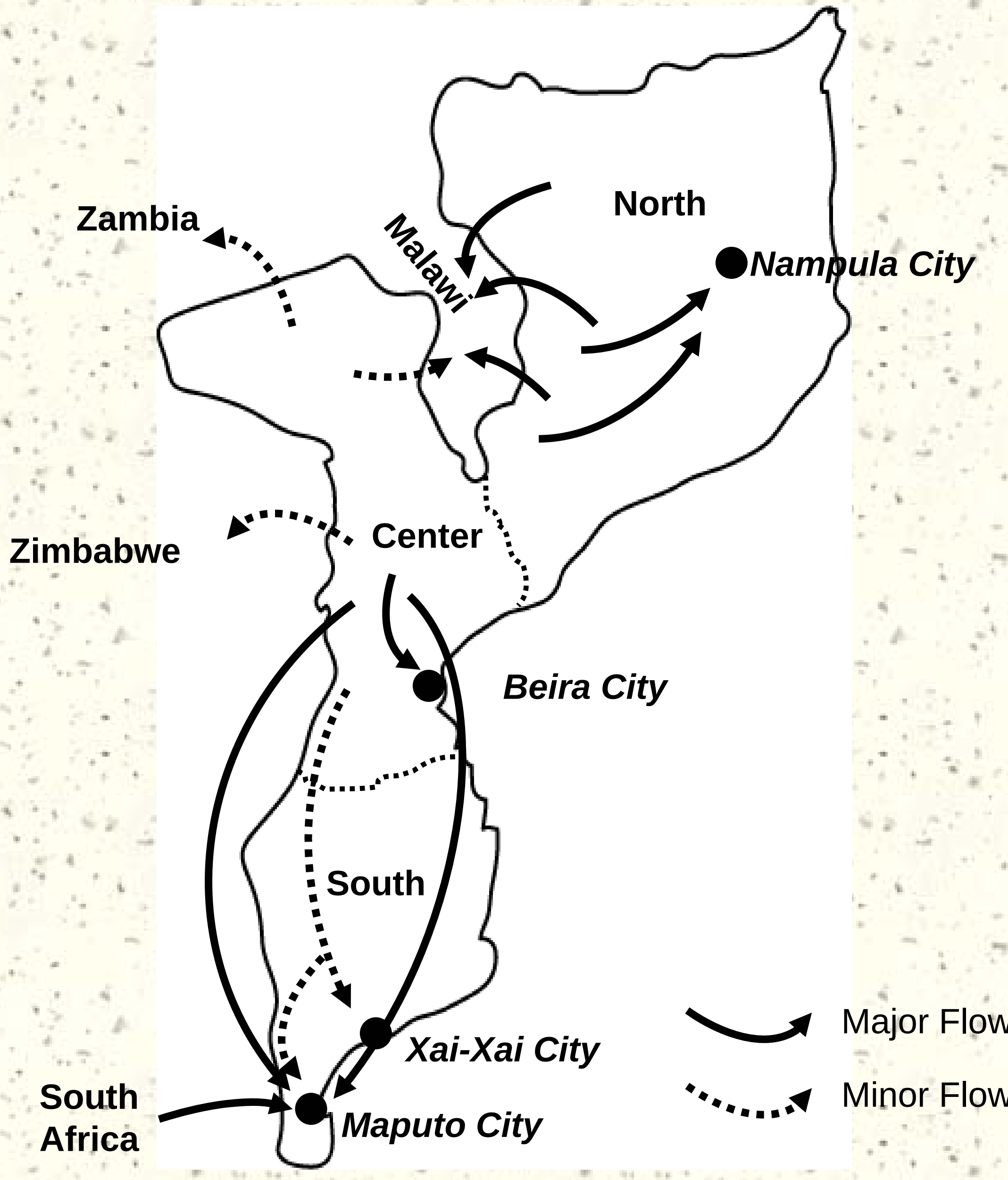
Structure of the Presentation

- Why focus on Center and South?
- Production & marketing structure at farm level
- Two related policy issues
  - Extremely high maize meal prices
  - VAT on maize and import tariff on maize meal
- Wrap-up



Maize from North almost never flows to Center or South

Center, South, and RSA (& Zimbabwe if fewer limits on trade) form natural trade area

Urban/Rural Growth Trends

- Urban growth ~ 5%/annum, rural now slightly negative
- Urban population share
  - < 10% early 1970s … > 35% now … 48% by 2015
- With even modest economic growth, urban demand for maize likely to double in 10 years' time
  - And fewer farmers to meet that demand
- This increase could easily be covered by RSA
  - What does Mozambique need to do to capture a large share of this growth?
  - What are the implications if it does not?

Production & Marketing at Farm Level

	Region			
	North	Center	South	Total
% of National Population	51	23	26	100
% of National Production	51	40	10	100
% of National Sales	59	39	2	100
Household Level by Region				
% Planting Maize	74	94	90	-
% Producing Maize	73	90	78	-
Mean Quantity Produced Among Those Producing (Mean Kg)	406	749	250	-
% Selling Maize	24	23.4	3.8	-
Mean Quantity Sold Among Those Selling (Mean Kg)	154	299	137	-

Data Source: TIA 2002

Production & Marketing at Farm Level

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Data Source: TIA 2002

South has very little role in national prodn and sales

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Center has much larger role

Production & Marketing at Farm Level (2)

	Center			South		
	% of Pop.	% of Prod'n	% of Sales	% of Pop.	% of Prod'n	% of Sales
No prod'n	10	0	0	23	0	0
Prod'n, no sales	66	53	0	73	77	0
Sales Quartiles						
1 (lowest)	6	6	3	1	2	3
2	6	7	8	1	2	5
3	6	11	18	1	5	15
4 (highest)	6	22	72	1	14	77

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Three-quarters either did not produce or did not sell

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Highly concentrated sales

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Over 95% either did not produce or did not sell

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Highly concentrated sales

Production & Marketing at Farm Level (3)

- Very small scale … but with some exceptions
  - Yet top sellers doing a lot right
    - Yields > 2 Ton/Ha → How are they doing this?
- Highly concentrated marketing
  - But sellers are spread across wide geographic areas
  - And even the largest sellers sell on average only about 1 ton
    - ½ ton in the South

Production & Marketing at Farm Level (3)

- Results
  - Very high costs of assembly
  - Poor quality
  - Very difficult to ensure regular supply to large buyers
- The challenge is to double, then triple the size of this commercial smallholder sector
  - Need to understand how they are achieving these results in order to tailor investments and outreach

Production & Marketing at Farm Level (3)

- Market demand for consumption in rural areas is large!
  - Net buyers of maize
    - 53% North
    - 68% Center
    - 71% South
  - Market demand in rural areas may currently rival urban demand
    - Will fall in relative terms, but remain important

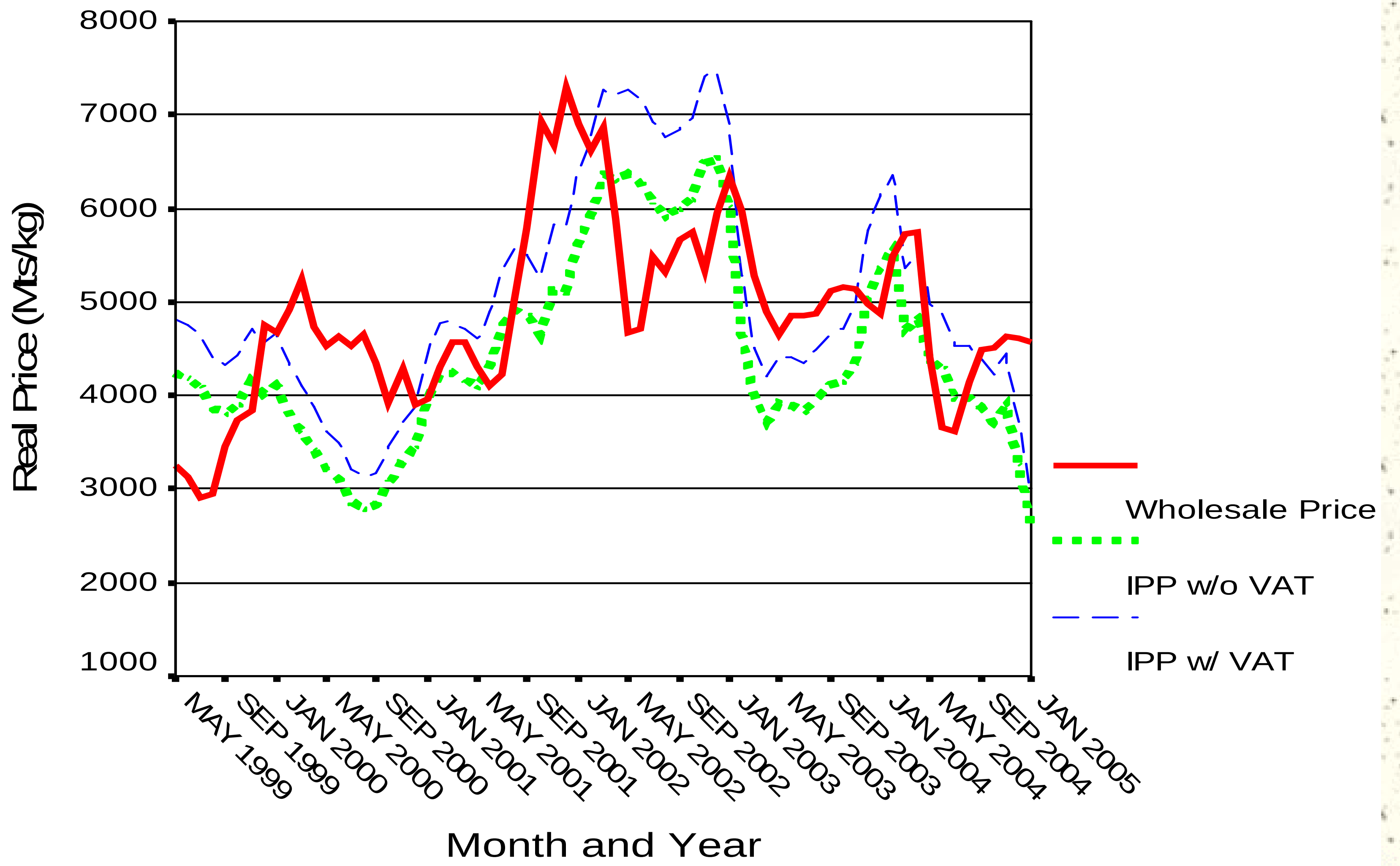
Two Policy Issues

- Extremely high maize meal prices
  - Even with more small commercial maize millers entering into the market
  - In the last few months: two new maize millers
- VAT on maize grain and import tariff on maize meal

VAT on Maize Grain Imports

- 17% over CIF
- Two key characteristics
  - Not applied to rice, wheat, bread
  - Maize meal are exempt …
    - … so imports of maize grain for processing have a right to reimbursement
    - … but imports for sale as grain do not
- So in principle, VAT favors
  - Rice and wheat over maize,
  - Maize meal over maize grain, and
  - Large industrial millers over hammer millers and smaller traders

VAT on Maize Grain Imports (2)



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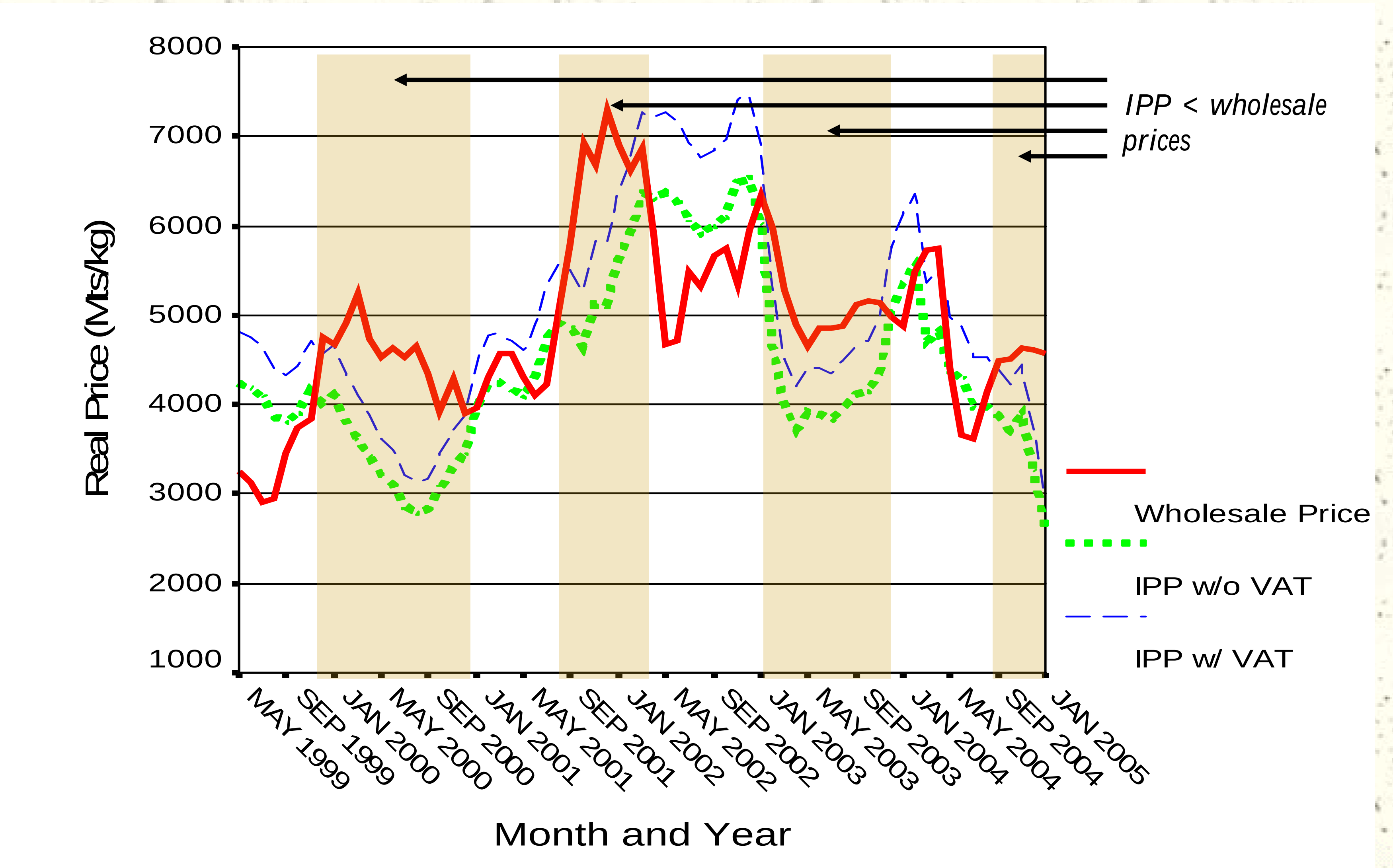

VAT on Maize Grain Imports (3)

- Why no imports?
- Informal trade ➔ institutional/regulatory barriers
  - Highly formal and large-scale marketing system in RSA
  - Complexity of requirements on Mozambique side
    - A clause which simplifies requirements is applicable only to the very smallest traders
- Formal trade ➔ insufficient demand
  - Rice a low cost option for consumers,
  - They spend very little on maize (average 4 Kg/mth per family)
  - *Hypothesis*: Most are therefore willing to pay high premium for refined meals on the small quantities that they buy

Reducing Cost of Supplying Maize Grain

- For domestic system: maize supply chain development program
  - Learn what the top sellers are doing, and invest strategically to increase the size of that group
  - More efficient rural assembly
    - Recognized market days,
    - Enhanced market information focused on these assembly points
    - Improved infrastructure in assembly points,
    - Improved transport availability linked to these assembly points,
  - Improved marketing infrastructure in public terminal markets

Reducing Cost of Supplying Maize Grain (2)

- For import trade
  - Increase size limit to qualify for simplified regulatory procedures
    - 20 Ton/month?
  - Consider phasing out VAT on maize grain
    - Generates no permanent revenue for state
  - If top two steps taken
    - Consider special programs to facilitate rehabilitation of the hammer milling sector in the South

Thank You