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Regional Trade and the Economic Development of Northern Mozambique

David Tschirley

The importance of regional markets

Production potential in Mozambique, based on the reliability of rainfall and fertility of soils, is much greater north of the Zambezi than south of it. This fact is reflected in the regularly higher yields obtained in the central and northern regions of the country than in the south, despite all three regions primarily using production systems with no purchased inputs; and by the fact that central Zambezia and areas north of it were little affected by the 1992 drought, which devastated the rest of the country and the Southern African region as a whole.

Nonetheless, this agro-climatically favored zone also suffers from geographical and infrastructural characteristics which to date have made it very difficult for the region to develop its production potential. These characteristics include 1) long distance from the principal consumption centers of Beira and Maputo, 2) poor north-south road links, and 3) a coastal shipping industry that, while improved over recent years, still does not provide a reliable, low-cost option for moving northern food products to southern markets. These characteristics result in very high costs of supplying the Center and South of the country and, consequently, very low prices to producers when such trade does occur.[1]

The characteristics just outlined result in Southern Mozambique being supplied by the south/center of the country and by South Africa during normal years, while Central Mozambique is supplied by the center of the country. At best, the North can expect to sell to the Center and South only every 3-7 years (during regional droughts), and even then producer prices will not be highly attractive. Clearly, the North must look to regional markets if it is to develop its production potential. If it does not, its overall economic growth prospects are quite poor compared to other regions of the country, where manufacturing and services have greater investment potential.

Recent developments in maize trade

The story of the breakdown of Mozambique's old command system with its geographical monopolies and fixed prices and the emergence of the informal trading sector is told in some detail elsewhere.[2] In the South and Center, this informal sector developed aggressively and has been quite successful, within the limitations imposed by poor infrastructure and limited scales of operation, in linking the two regions and serving the needs of producers and consumers. In the North, in contrast, the lack of large centers of demand has left the informal sector severely underdeveloped, and the relatively low profit margins and risk of the food trade have, with some exceptions, kept larger and better capitalized traders out of the business. As a result, food trade in the North remains small-scale, with high unit costs, very high returns to capital, but generally low returns to labor (Tschirley and Santos, 1998).[3]

This picture changed dramatically this past year, when large private traders entered the market aggressively to take advantage of the emergence of the Malawi export market. During the third and fourth quarters of 1997, of 26,101 metric tons of officially registered exports from Mozambique, 23,330 were realized by private traders, a major change from previous periods when over 80% of official exports were realized by ICM, the marketing parastatal.[4] Estimates of total formal and informal exports during the 1997/98 marketing year approach 100,000 mt. As a result, prices received by farmers nearly quadrupled in Manica province between June and December 1997, and nearly tripled in areas of western Nampula province. Prospects for the 1998/99 marketing season are that Malawi will

* The opinions expressed here are the entire responsibility of the Food Security Project and do not reflect the official position of the Ministry of Agriculture and Fisheries.

remain a key market and that formal traders will play an even larger role than they did last year. Should Malawi remain a regular market for Mozambican maize in the future, the changes seen this year will result in a fundamental structural change in food marketing in this region of the country, allowing a larger scale of operation, lower unit costs, and higher prices to farmers.[5]

Current challenges

The government faces at least two challenges in responding to the sea change that has occurred in maize marketing this year. The first, certainly, is to not derail the opening to large-scale regional exports. Higher prices and a more regular outlet for maize in the North of the country mean higher incomes and greater well-being for hundreds of thousands of poor family sector farmers. Unlike cotton and cashew, the predominant cash crops in the region, maize is grown by nearly every household, suggesting that increased incomes from this crop will be broadly distributed among poor and less-poor alike. These changes also improve the likelihood that farmers in this region will find it in their economic interest to make the investments in input use that are badly needed to raise productivity. Certainly these investments will not occur without access to a dynamic export market. An aggressive regional orientation must be seen as part and parcel of an overall strategy to modernize the entire food system in Mozambique, from production through trade, processing and consumption.

A second challenge relates to the normative question of what kind of marketing system the country wants. Will the new entrepreneurs of the informal sector[6] be left behind in the rush to export, consigned to the role of assemblers for the export traders and high-cost suppliers to the small local market while formals dominate the more lucrative export market? Success in the export market requires capital, up-to-date information, and entrepreneurial "know-how". The more successful informals have the latter, but are disadvantaged in relation to the first two. Innumerable barriers to formalization lead to continued informality for many entrepreneurs, with the attendant lack of access to low-cost credit, higher costs and smaller scale of operation.[7] Lack of access to modern communications leads to less up-to-date information and a competitive disadvantage for the smaller traders. A dualistic trading system will also have negative effects for Mozambican consumers, who will continue to depend on the entrepreneurial and efficient, but small-scale and high-cost informal sector.

What to do?

Any strategy to develop regional export potential in food and other crops in northern Mozambique must be active on many fronts. Clearly, there is a need for continued improvement of port management and roads, especially secondary and tertiary; for simplification of licensing and other bureaucratic procedures related to trade; for improved access to credit for agricultural trade; and for continued development of farmer associations.[8] In addition, government can make an important contribution to facilitating regional trade by:

- Making a clear policy statement that it will not prohibit maize exports even during drought years. If traders expect that government will close-off profit opportunities during years of regional deficit, they will not invest in their capacity to efficiently and regularly assemble and export large quantities of grain. The result will be continued small-scale operation, high costs, low prices to farmers, and high prices to consumers; hardly a recipe for the economic development which all wish to see in Mozambique.

- Collaborating with the private sector to create a regional trade information network. An effort is currently beginning in this regard in MICTUR, and this needs strengthening. If successful, such a network could provide the basis for an agricultural commodity exchange in the area.

By adopting an aggressive policy of encouraging regional trade in the country as a whole, and regional exports from the North in particular, government can make a major difference in the development of this region of the country with relatively modest expenditure of scarce public funds.

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Endnotes

1. See Coulter (1996) for a more detailed discussion of this issue.

2. See, for example, Tschirley, et.al (1996), Tschirley and Santos (1998), Tschirley (1998), MAP/MSU Research Team (1993) and Sahn and Desai (1994).

3.These high returns to capital are on very small amounts of invested capital. Structural conditions in domestic Mozambican food markets mean that profit margins for large traders investing significantly more capital would be unattractive.

4. While not all exports went to Malawi, the emergence of this market brought formal traders aggressively into the food trade. Very active informal trade with Malawi has occurred for some years.

5. Demographic changes and a switch to higher profit cash crops such as tobacco in Malawi suggest that this country may be entering a structural deficit and will be a regular consumer of Mozambican maize for the foreseeable future.

6. In this paper, "informal trader" refers to a class of traders generaly sharing all or most of the following characteristics: their activity is unlicensed; they are relatively recent entrants to the food trade; they are ethnic Mozambicans as opposed to Portuguese or Asian; they specialize in one or possibly two agricultural commodites; and they operate on a relatively small scale, typically not more than 30 metric tons every two weeks.

7. See the USAID/Mozambique "Red Tape Analysis" for documentation of many of these barriers.

8. These have played an increasingly important role in maize trade in the North in recent years.