Políticas de Mitigação na Área Alimentar e de Combustiveis

Felix Fischer, International MonetaryFund
Channing Arndt, MPD
Harold Alderman, Banco Mundial
Antonio Nucifora, Banco Mundial
Rui Benfica, The World Bank

Maputo - Mozambique
June 18 2008

Presentation Outline

- General principles for policy response to help households cope with high food & fuel prices
- Examples of actual responses from other countries
- Policy options for Mozambique
- Summary of recommendations: short-term and medium-term

Presentation Outline

- General principles for policy response to help households cope with high food & fuel prices
- Examples of actual responses from other countries
- Policy options for Mozambique
- Summary of recommendations: short-term and medium-term

Increasing world prices for food and fuel present a range of policy challenges.....

- Passing through prices to consumers reduces real incomes of households (poverty concern)
- Not passing through prices (by either subsidizing or reducing taxation)
  - Can result in a substantial fiscal burden that needs to be financed (fiscal concern)
  - Distorts consumption patterns and exacerbates adverse balance of payments impacts or reduces balance of payments benefits (efficiency concern)
- Not passing through prices would reduce the incentives to increase agricultural production, and exports
  - Higher food prices are also a great opportunity for Mozambique

Increasing world prices for food and fuel present a range of policy challenges.....

- Not passing through price increases is undesirable on fiscal, efficiency <u>and often on equity grounds</u>
- High return to developing a targeted social safety
- Policy challenge in short-term in low-income countries is to compensate for absence of safety net and targeting capability

Principles to identify good policies

- Short-term policies should ideally support and definitely not undermine, long term priorities
- Preserve incentives (e.g. labor, agricultural production)
- Targeted most vulnerable groups
- Costs limited, and no leakage outside national borders
- Easy to implement and introduce
- Limited management and/or governance concerns

Presentation Outline

- General principles for policy response to help households cope with high food & fuel prices
- Examples of actual responses from other countries
- Policy options for Mozambique
- Summary of recommendations: short-term and medium-term

Improving household food security using safety nets

This is long run ideal. Examples include:

- Cash based transfers (means based), e.g. Indonesia, Brazil, Romania
- ‘Near cash’ (food stamps, vouchers), e.g. Sri Lanka, Tunisia
- Public works programs (cash), e.g. Malawi, Cambodia
- Targeted nutrition programs (children under-2 & pregnant women), e.g. Burkina, Honduras, Morocco

Improving household food security using safety nets

Additional policy options which may be considered under special circumstances:

- School feeding programs
- Public works in kind (‘food-for-work’)

Policies to mitigate the impact of higher domestic food prices

Preferable options include:

- Reduction in import tariffs, VAT and other taxes to grains and milled products
- Selective grain / bread subsidies targeted to poor consumers e.g. Bangladesh, Egypt, Morocco
- Small strategic grain reserves (buffer stocks) to smooth against import delays

Policies to mitigate the impact of higher domestic food prices

Bad policy options include:

- Generalized consumer subsidies
- Price controls for “strategic” staples or on trader margins, e.g. several countries in Eastern Europe and Middle East
- Grain export bans or taxes, e.g. India, Argentina, Croatia, Pakistan, Vietnam, Russia

Policies to mitigate the impact of higher fuel prices

Preferable options include:

- Targeted subsidy to urban transport operators
- Targeted urban transport subsidies (vouchers / cards to specific vulnerable groups)

Policies to mitigate the impact of higher fuel prices

Bad policy options include:

- Generalized fuel subsidies (or reduction of taxes)
- Subsidize/ finance public transport company
- Subsidized financing for private purchase of public transport vehicles
- Reduction in import tariffs for spare parts for public transport vehicles

Examples from other countries: Lower domestic fuel prices

- Most developing countries control the domestic pricing and distribution of petroleum products
- IMF Fiscal Department survey found that from 48 countries:
  - 15 had fully liberalized systems (Kenya, Tanzania, Uganda)
  - 8 had functioning automatic pricing formulae (+8 suspended recently) (South Africa)
  - 21 had ad hoc pricing (Zambia; Cameroon, Chad, Gabon, DR Congo, Rep. of Congo)

Summary overview of policy options

	Targeted to vulnerable groups	Preserve incentives	Costs limited, and within national Borders	Easy to implement / introduce	Limited management / governance concerns
Safety nets programs					
Cash transfers	√	√	√		√
Food stamps / vouchers	√		√	√	
Targeted feeding / nutrition programs	√		√	√	
Public work programs (in cash)	√	√	√		
School feeding programs		√		√	
Policies to mitigate higher food prices					
Reducing import tariffs and VAT		√	√	√	√
Targeted consumer subsidies	√	√	√		
Using buffer stocks to increase supply		√		√	
Generalized consumer subsidies			√	√	
Export bans / restrictions				√	
Producer price controls					
Policies to mitigate higher fuel prices					
Targeted subsidy to urban transport operators	√	√	√	√	
Targeted urban transport subsidies (cards)	√	√	√		
Subsidized financing for purchase of vehicles		√	√		
Generalized fuel subsidies (or tax reduction)				√	√
Subsidize/ finance public transport company			√	√	
Reduction in import tariffs for spare parts		√		√	

Summary overview of policy options

	Targeted to vulnerable groups	**Preserve incentives**	**Costs limited, and within national Borders**	**Easy to implement / introduce**	**Limited management / governance concerns**
Safety nets programs					
Cash transfers	√	√	√		√
Food stamps / vouchers	√		√	√	
Targeted feeding / nutrition programs	√		√	√	
Public work programs (in cash)	√	√	√		
School feeding programs		√		√	
Policies to mitigate higher food prices					
Reducing import tariffs and VAT		√	√	√	√
Targeted consumer subsidies	√	√	√		
Using buffer stocks to increase supply		√		√	
Generalized consumer subsidies			√	√	
Export bans / restrictions				√	
Producer price controls					
Policies to mitigate higher fuel prices					
Targeted subsidy to urban transport operators	√	√	√	√	
Targeted urban transport subsidies (cards)	√	√	√		
Subsidized financing for purchase of vehicles		√	√		
Generalized fuel subsidies (or tax reduction)				√	√
Subsidize/ finance public transport company			√	√	
Reduction in import tariffs for spare parts		√		√	

Presentation Outline

- General principles for policy response to help households cope with high food & fuel prices
- Overview of possible policies and examples of actual responses from other countries
- Policy options for Mozambique
- Summary of recommendations: short-term and medium-term

Mozambique Policies

	Targeted to vulnerable groups	Preserve incentives	Costs limited, and within national Borders	Easy to implement / introduce	Limited management / governance concerns
Safety nets programs					
Cash transfers	√	√	√		√
Policies to mitigate higher food prices					
Reducing import tariffs and VAT		√	√	√	√
Policies to mitigate higher fuel prices					
Targeted subsidy to urban transport operators	√	√	√	√	

- **Initiatives in all three most preferred options are already in place:**
  - **Programa de subisidios de alimentos**
  - **Trade liberalization under SADC trade protocol**
  - **Support to collective transport in urban areas**

Accelerate safety nets expansion

Current status in Mozambique:

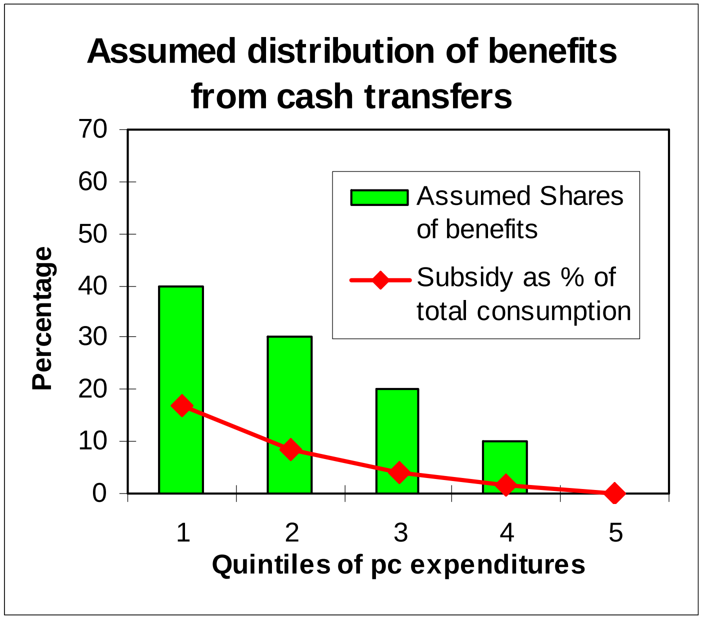
- (1) Programs run by National Institute of Social Action:
  - Targeted cash transfers (Programa Subsídio de Alimentos, PSA)
    - About 128,000 beneficiaries in 2008 (100 to 300 Mt monthly). Targeting the elderly (almost 90%), chronically ill, and people with disabilities
  - In kind support (Programa Apoio Social Directo)
    - Only about 5,000 beneficiaries in 2008. Focused on chronically ill, and orphan and vulnerable children.
  - Other very small programs: Social Benefit for Work (PBST); Income generation (PGR); Community Development (PDC)
- (2) Programs to address malnutrition (MISAU)
  - Supplementary feeding programs for malnourished children
  - Provision of general food rations to AIDS patients.
- (3) Programs focused on retaining learners in schools
  - School feeding (primary, secondary, and boarding institutions).

Accelerate safety nets expansion

- Immediate scaling-up scenario for Targeted Cash Transfers (PSA) in (2008-2010):
  - Increase in the PSA transfer by 25%
  - Rapid expansion to cover 290,000 direct beneficiaries by 2009 and 370,000 by 2010
  - Concentrate in most affected urban areas
- Immediately start work to develop a more cohesive Social Protection Strategy in medium-term:
  - Mapping vulnerability; assessing the impact of current programs with a view to their reformulation; experimenting with different targeting approaches to improve effectiveness
- Requires upfront investment in institutions and strengthening capacity:
    - Strengthen management information systems
    - Strengthen existing delivery mechanisms
    - Institutional capacity to appropriately target
    - Institutional capacity to disburse cash to large numbers of people

Accelerate safety nets expansion

- Results of simulation of immediate scaling-up scenario for Targeted Cash Transfers (PSA) in (2008-2010):
- Costs and benefits (transfer from GOM to consumers):
  - Fiscal cost increase from current US$ 14 million, to US$ 33 million in 2010
  - Benefits to consumers increase from current US$11 million to US$ 27 million in 2010
- Benefit incidence analysis:
  - Program expansion from 4% to 14% of population by 2010
  - <u>Assuming</u> good targeting (i.e. leakage <20% to non-poor): Richest quintile gets <5% of subsidy, and poorest gets >40%
  - Increase in incomes would be about 17% for poorest quintile



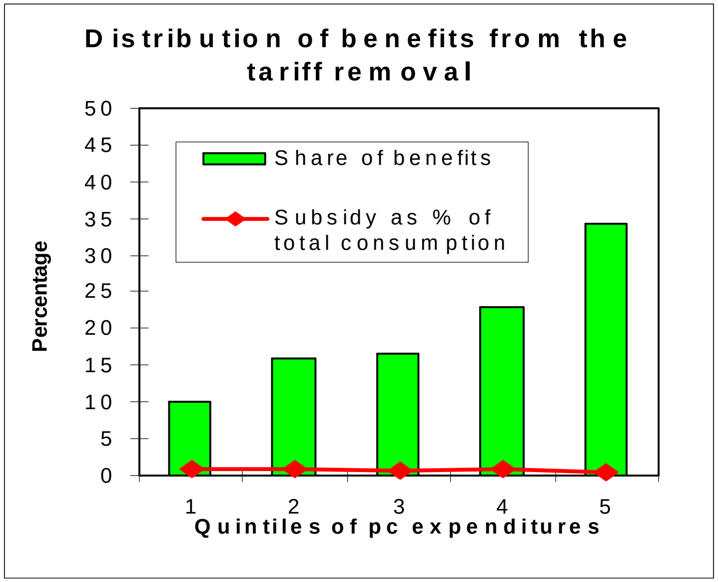
Reduce import tariffs on milled grains to 2.5%

- All basic foods are VAT exempt in Mozambique
- Import tariffs on basic foods are negligible (max 2.5%), except for milled grain products which face 20% import duty
- Removal of import duty on milled wheat and maize is equivalent to a transfer from industry and GOM to consumers
- Milling industry can be supported by direct compensation, on a declining scale (i.e. less distortive industrial policy)
- Eliminate VAT on imported grains

Reduce import tariffs on milled grains to 2.5%

- Results of simulation of removal of import duty on milled wheat and maize (N.B.: using 2006 values and prices):
- Costs and benefits (transfer from industry and GOM to consumers):
  - Fiscal cost to GOM from loss of tariff revenues: US$ 0.3 million
  - Loss of protection to milling industry: US$ 29.0 million
  - Total benefit to consumers would be US$ 29.3 million.

- Benefit incidence analysis:
  - Richest quintile receives 35% of benefit
  - Poorest quintile receives only 10%
  - Very small increases in incomes, (around 1 percent)

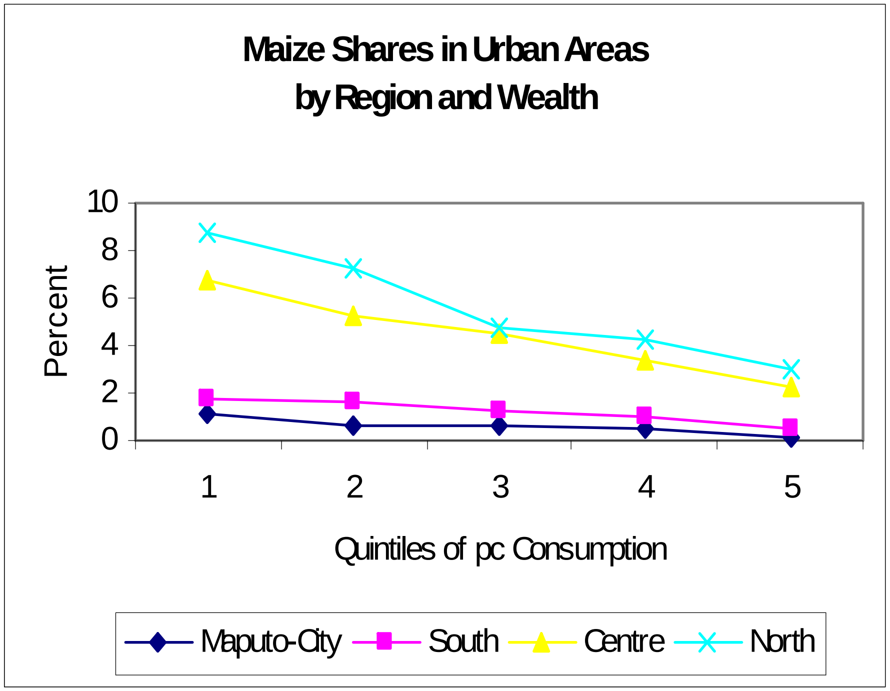


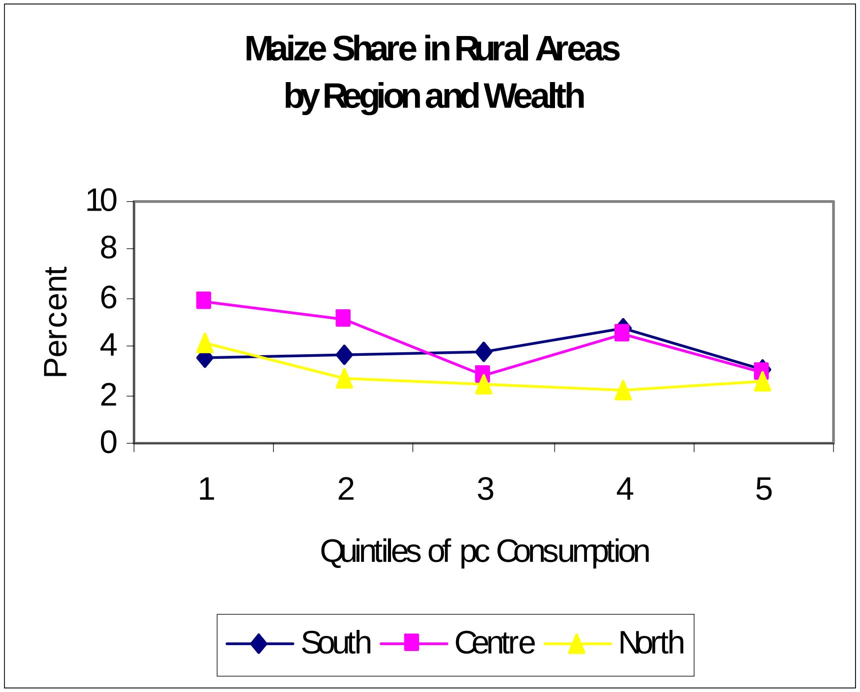
Alternative: Food price subsidies

- Food subsidies work best when the subsidized product is:
  - (a) self-targeted, i.e. consumed mainly by the poor
  - (b) occupies large share in budget of the poor; and
  - (c) is traded across the country (so that prices can be affected)
- Mozambique does not have any food products that have those characteristics; yellow maize had been used in the past
- Hence food subsidies cannot be well targeted and are expensive

Targeting Specific Commodities? Maize

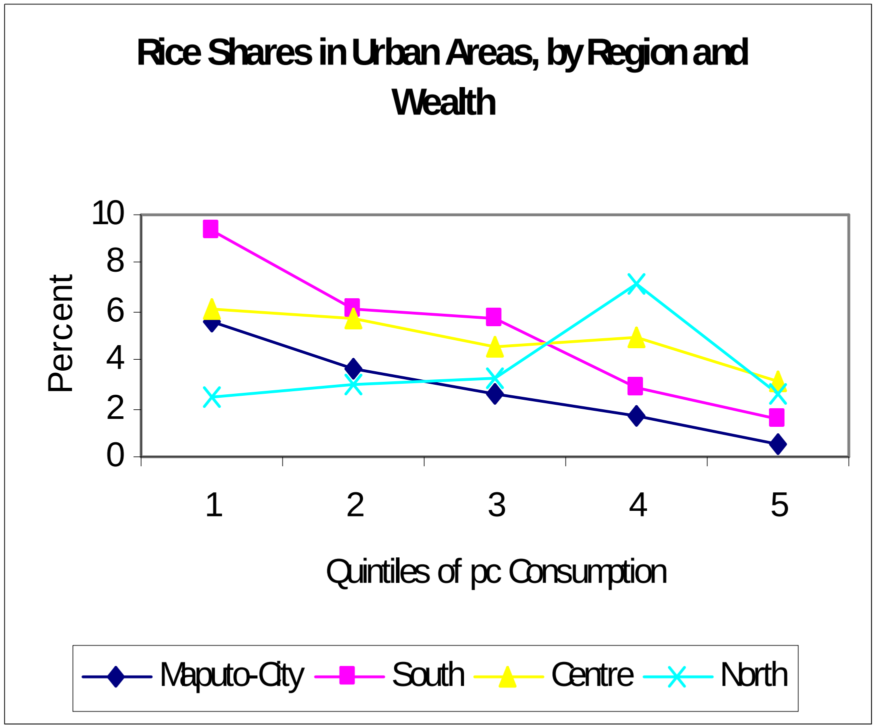
- Maize has significant share of the poor's budget in the urban areas in north and center, but is only slightly self-targeted

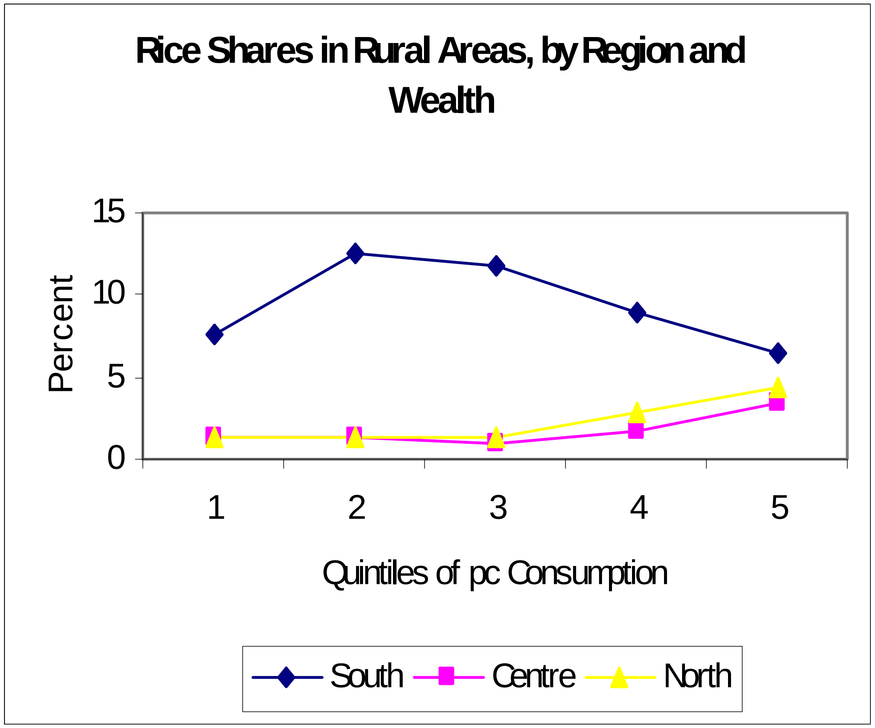




Targeting Specific Commodities? <u>Rice</u>

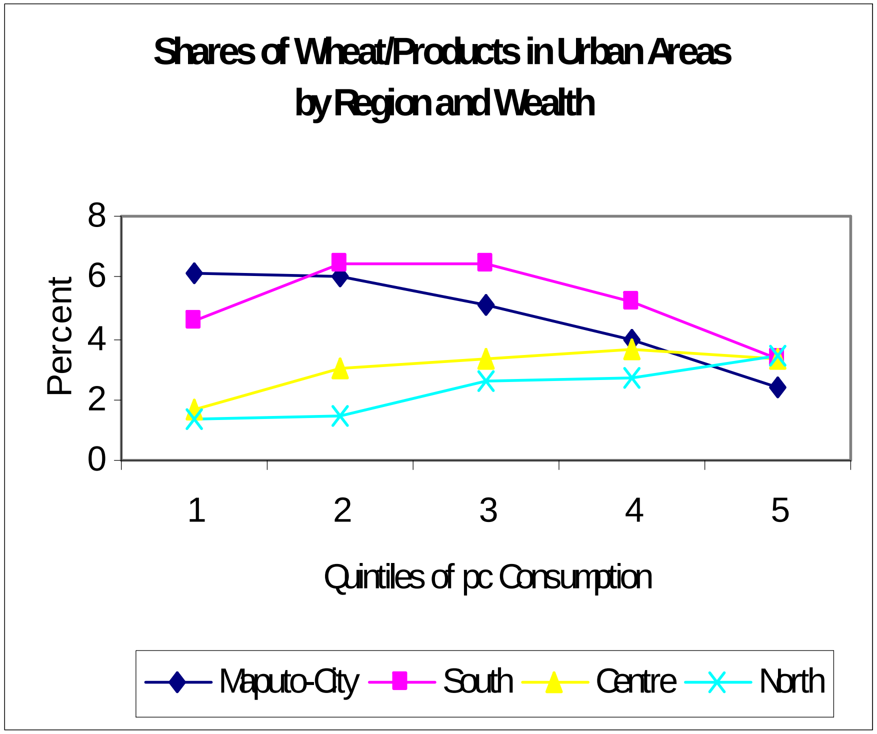
- Rice has significant share of the poor's budget in Maputo and urban areas in south and center, and in rural south (i.e., good matching with areas worst affected by crisis); but is only slightly self-targeted

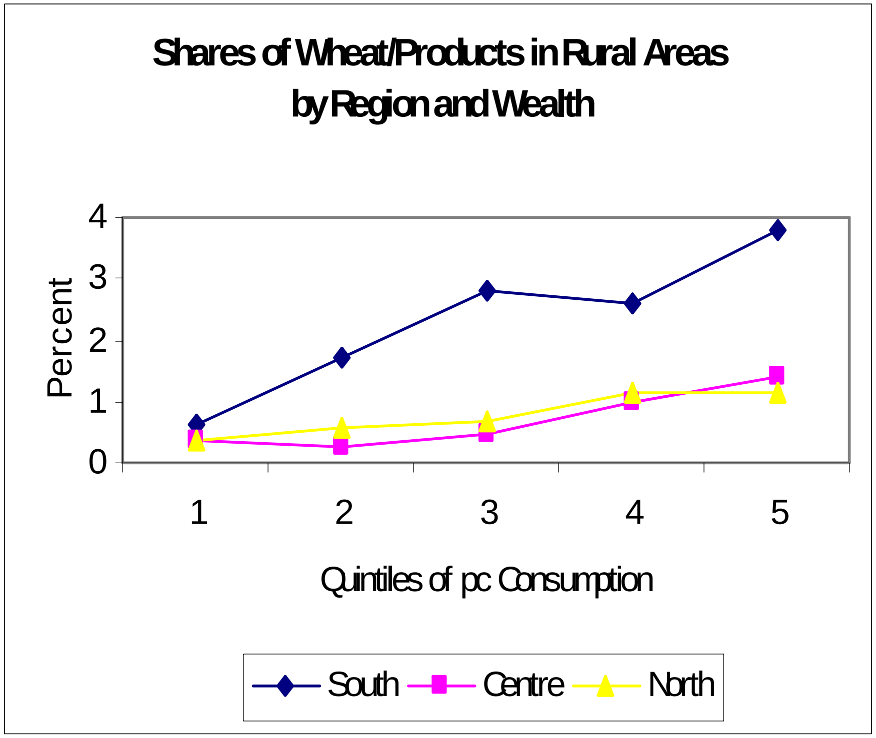




Targeting Specific Commodities? Wheat/Products

- Wheat products in Maputo city and in the south, but are not mainly consumed by the poor
- Wheat is a luxury for north/central households even in urban areas





Food price subsidies cannot be well targeted and are expensive

- Results of simulation of 20% price subsidies on wheat, maize, rice (N.B.: we use 2006 values and prices)
- Costs and benefits (transfer from producers and GOM to consumers):

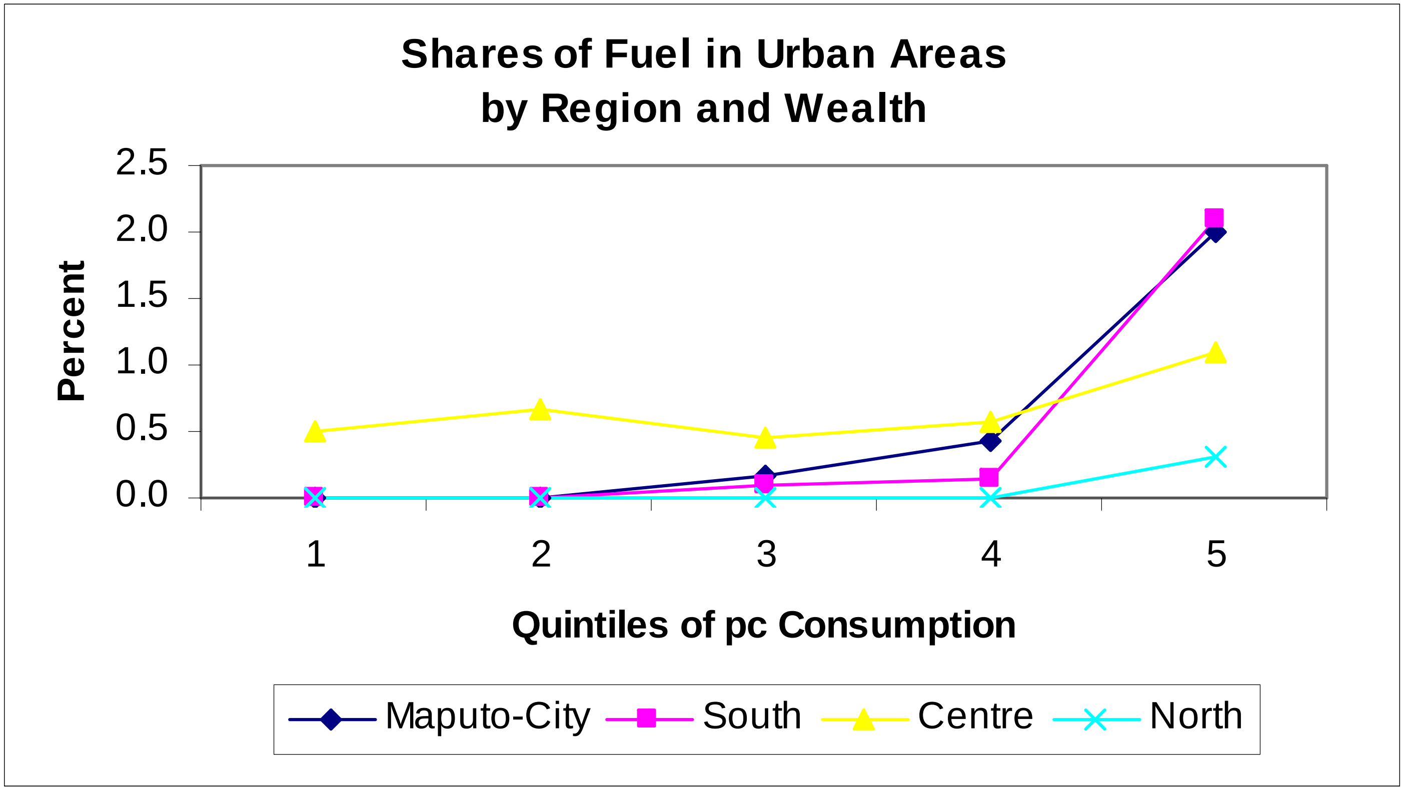
	Fiscal costs (US$ million)	Value of benefit to consumers (US$ million)	Increase % in income of poorest quintile	Share of benefits		Share of benefits	
				Poorest 20% (national)	Richest 20% (national)	Poorest 20% (urban)	Richest 20% (urban)
Wheat	10.4	10.6	0.2	6.1	42.4	6.8	38.8
Maize	1.7	6.6	0.3	14.3	25.9	14.6	27.0
Rice	18.3	21.0	0.8	9.8	38.4	13.2	25.5

Note: Very preliminary estimates based on 2006 quantities and prices, for indicative purposes only on relative costs and distribution of benefits. Only first order effects. No substitution effects. Import demand assumed inelastic.

Subsidizing fuel prices is very expensive and highly regressive

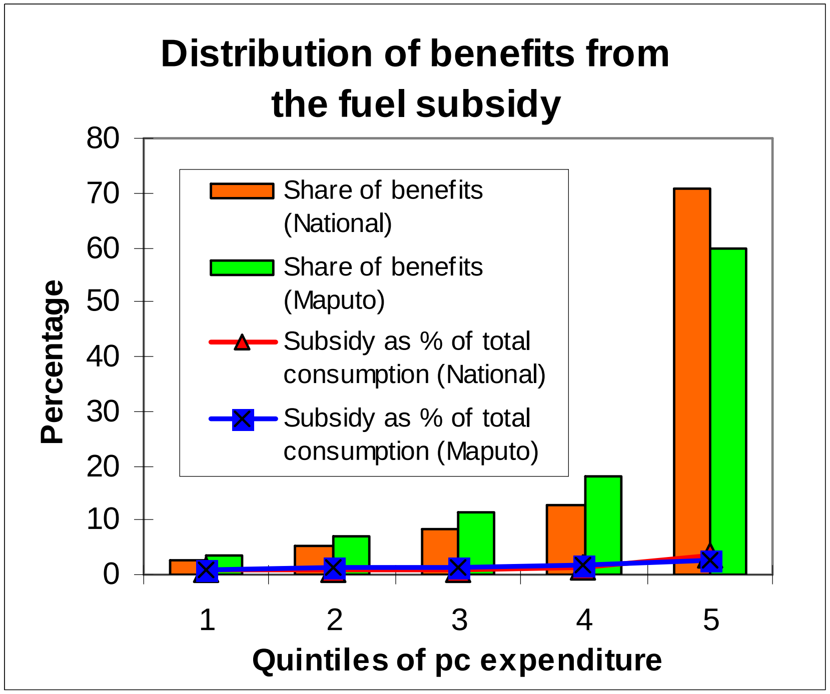
- Mozambique uses a good formula to link retail fuel prices to world prices; it is working and should be maintained
- Fuel is used most by richer members of population; therefore blanket subsidy to fuel is highly regressive
- Failure to adjust the prices according to the formula is in fact a price subsidy

Targeting Specific Commodities? Fuel (Gasoline/Diesel)



Subsidizing fuel prices is very expensive and highly regressive

- Results of simulation of 20% price subsidy on gasoline and 10% on diesel (N.B.: using 2007 values and prices)
- Costs and benefits (transfer from GOM to consumers):
  - Fiscal cost to GOM would be US$99 million
  - Total benefit to consumers would be US$99 milllion
- Benefit incidence analysis:
  - Richest quintile receives 71% of benefits
  - Poorest quintile receives 3%
  - Small increases in incomes: 1% for poorest quintile and 3% for richest



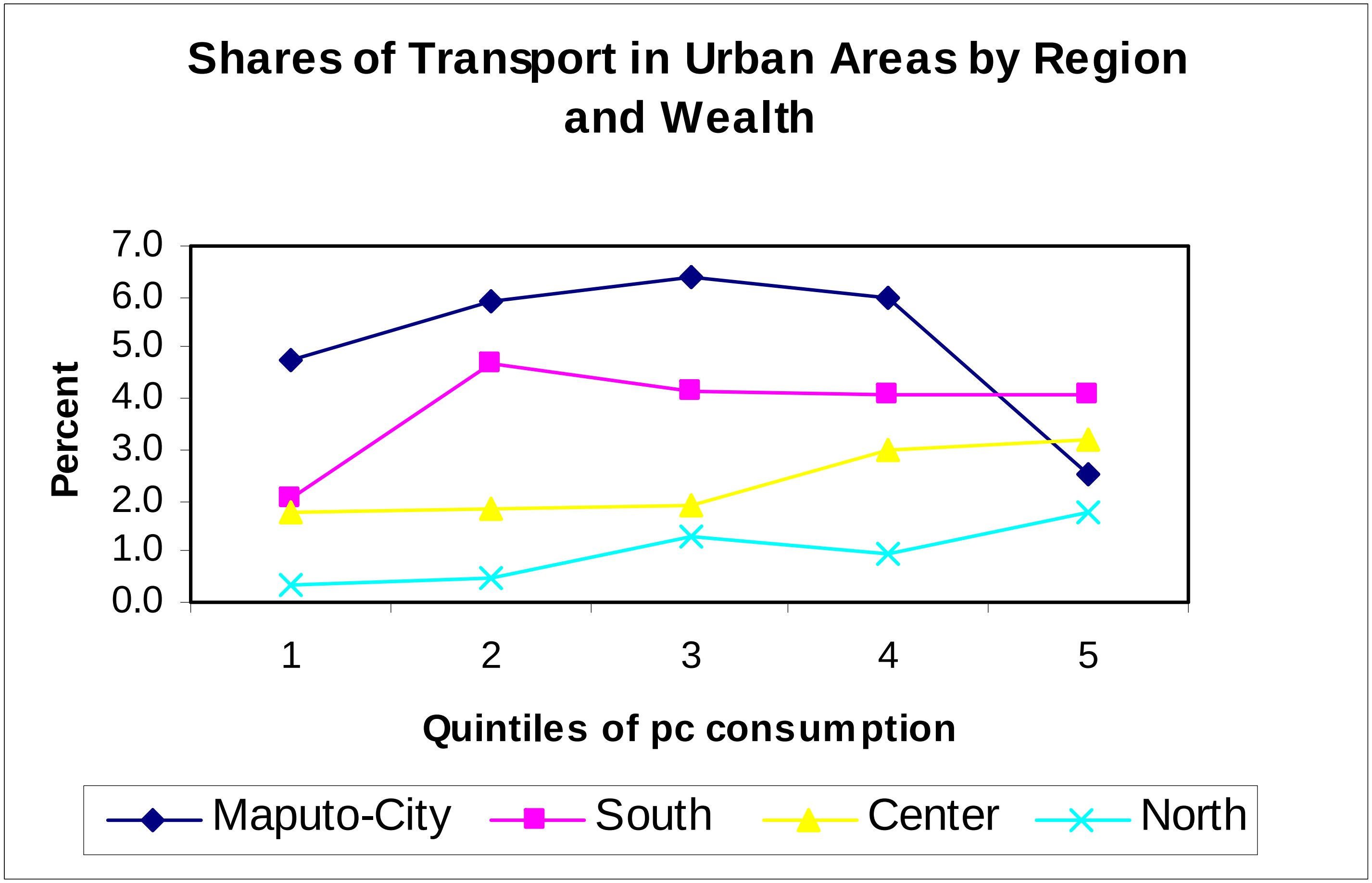
Subsidizing fuel prices is very expensive and highly regressive

- Fuel subsidies can easily reach enormous fiscal costs:
  - Cameroon: 0.3 percent of GDP in 2005
  - CAR: 0.6 percent of GDP in 2007
  - Gabon: 4.2% of NOGDP in 2006
  - Ghana: 2.2% of GDP in 2004
  - Republic of Congo: 5.6% of NOGDP in 2007

Support to the semi-collective transport system is a better solution

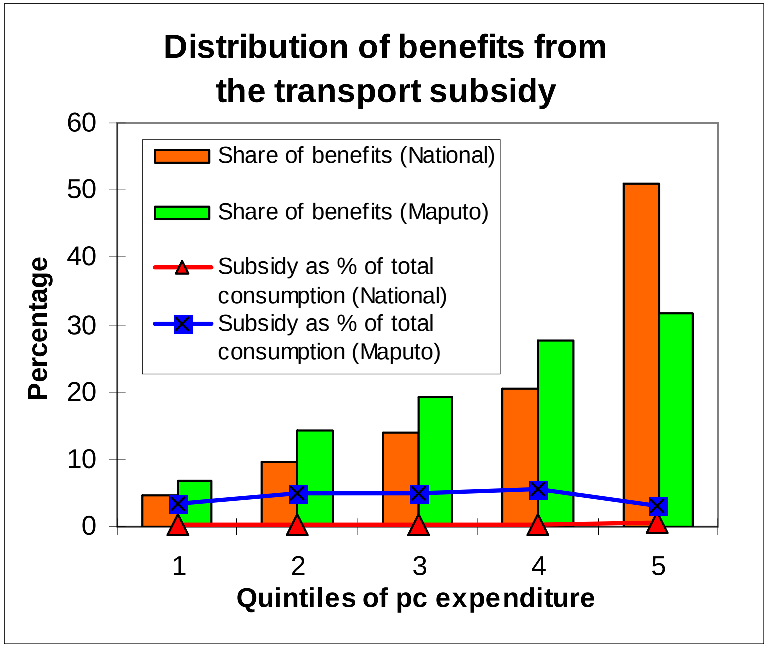
- Targeted compensation to urban transporters to keep down price of public transport introduced in February 2008
- It is fairly well targeted to households most affected by increase in price of public transport (i.e. Maputo and urban areas)
- It is priority to develop longer run solutions for urban transportation

Targeting Specific Commodities?
Transport costs



Support to the semi-collective transport system is a better solution

- Results of simulation of urban transport subsidy at 20% of fuel cost for industry (N.B.: based on estimates):
- Costs and benefits (transfer from GOM to consumers):
    - Fiscal cost to GOM are about US$ 17 million
    - Total benefit to consumers would also be US$ 17 million
- Benefit incidence analysis:
    - Richest quintile in Maputo receives 32% of benefits
    - Poorest quintile less than 7%
    - Significant increase in incomes in Maputo: 3.5% for poorest quintile and 3% for richest



Presentation Outline

- General principles for policy response to help households cope with high food & fuel prices
- Overview of possible policies and examples of actual responses from other countries
- Policy options for Mozambique
- Summary of recommendations: short-term and medium-term

Summary of preferable policies

	Fiscal costs (USD millions)	Value of consumer benefit (USD millions)	% increase in income of poorest quintile (national)	Share of benefits (national)		Share of benefits (Maputo)	
				Poorest quintile	Richest quintile	Poorest quintile	Richest quintile
Cash transfers (expansion)	33.0	27.0	17.0	40.0	5.0		
Price subsidy (Wheat)	10.4	10.6	0.2	6.1	42.4	6.8	38.8
Price subsidy (Maize)	1.7	6.6	0.3	14.3	25.9	14.6	27.0
Price subsidy (Rice)	18.3	21.0	0.8	9.8	38.4	13.2	25.5
Fuel price subsidy	99.0	99.0	1.0	3.0	71.0	3.5	60.0
Transport subsidy to industry	17.0	17.0	3.5 (Maputo)	5.0	51.0	7.0	32.0
Remove import tariff on milled grains	?	29.3	1.0	10.0	34.0		

Note: Very preliminary estimates based on 2006-2007 quantities and prices for indicative purposes only on relative costs and distrubution of benefits. Only first order effects. No substitution effects. Import demand assumed inelastic. Reasonable assumptions made on administrative costs and targeting for cash transfers.

Summary of preferable policies

	Fiscal costs (USD millions)	Value of consumer benefit (USD millions)	% increase in income of poorest quintile (national)	Share of benefits (national)		Share of benefits (Maputo)	
				Poorest quintile	Richest quintile	Poorest quintile	Richest quintile
Cash transfers (expansion)	33.0	27.0	17.0	40.0	5.0		
Price subsidy (Wheat)	10.4	10.6	0.2	6.1	42.4	6.8	38.8
Price subsidy (Maize)	1.7	6.6	0.3	14.3	25.9	14.6	27.0
Price subsidy (Rice)	18.3	21.0	0.8	9.8	38.4	13.2	25.5
Fuel price subsidy	99.0	99.0	1.0	3.0	71.0	3.5	60.0
Transport subsidy to industry	17.0	17.0	3.5 (Maputo)	5.0	51.0	7.0	32.0
Remove import tariff on milled grains	?	29.3	1.0	10.0	34.0		

Note: Very preliminary estimates based on 2006-2007 quantities and prices for indicative purposes only on relative costs and distribution of benefits. Only first order effects. No substitution effects. Import demand assumed inelastic. Reasonable assumptions made on administrative costs and targeting for cash transfers.

Summary of preferable policies

- Short term:
  - Accelerate direct cash-transfers (PSA).
  - Reduce tariffs on imported milled grain (wheat and maize flour), combined with temporary direct assistance to milling industry.
  - Continue targeted compensation to semi-collective transport industry. This is second best, but reasonably efficient in the short term.
- Medium-term:
  - Strengthen safety nets system to expand coverage.
  - Develop long term solutions for urban transport.
  - Develop agricultural policies to increase domestic supply (and reap benefits from higher prices).