

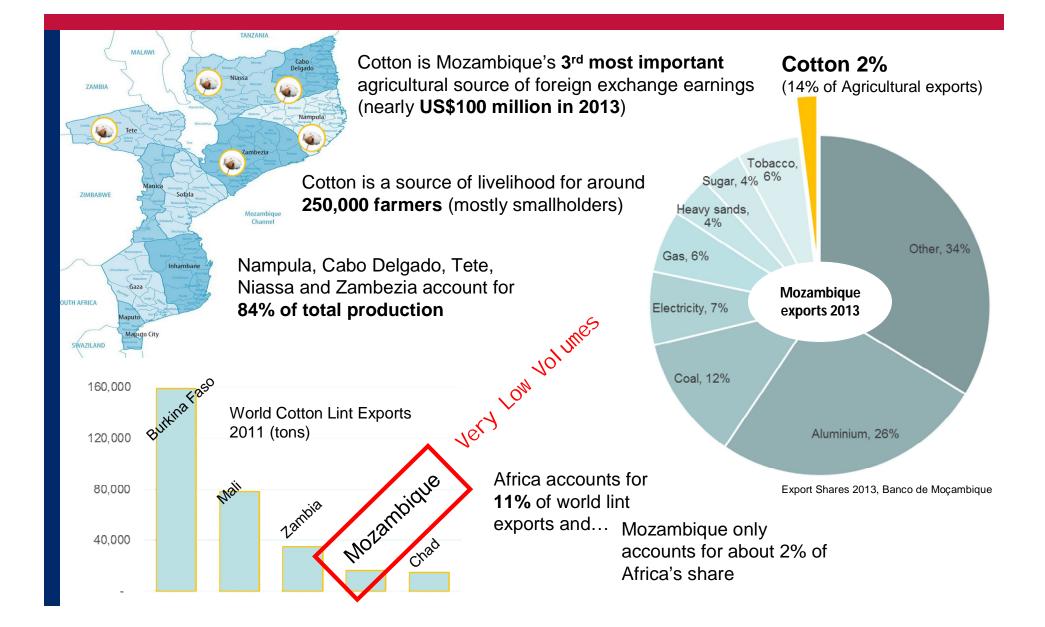
## Mozambique's Natural Resource Boom

# What potential impacts on the competitiveness of Mozambique's Cotton industry?





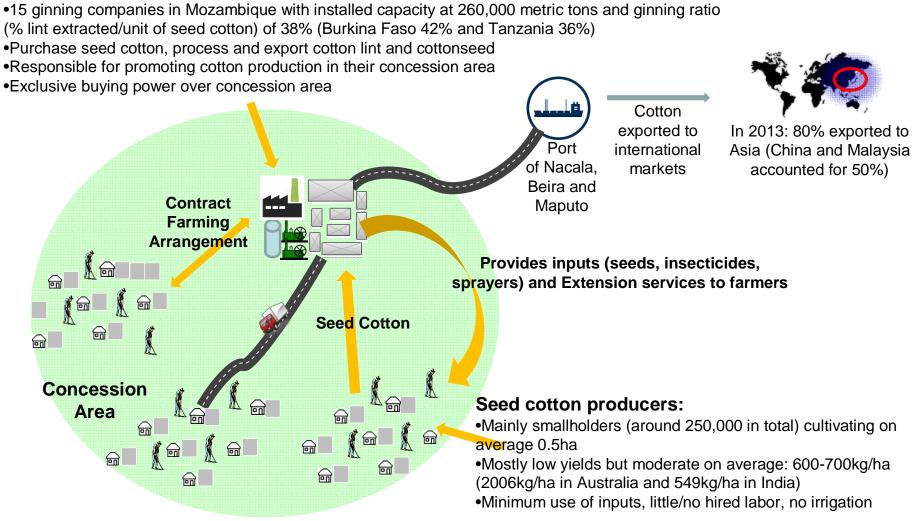
Cotton is one of Mozambique's **Top 10 exports**...yet volumes are very low when compared to other exporters





Cotton production in Mozambique uses the contract farming model involving a few large buyers and thousands of small producers

#### Private ginning companies (processors):





### Mozambique's cotton price tracks the World Price but generally trades at a discount

**2 prices** are set annually by government (negotiated among IAM, the Cotton Association and producers)

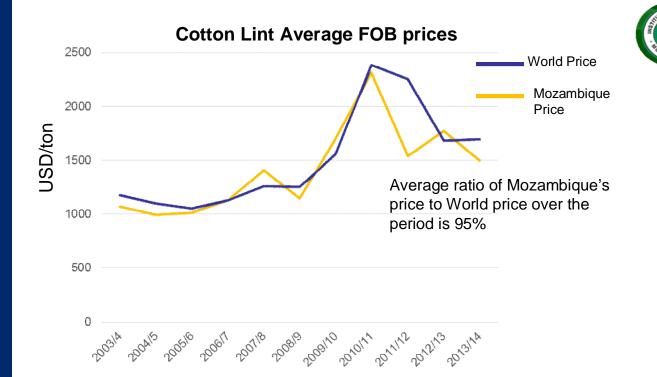
- Indicative price: set before sowing beings (October/November)
- **Official minimum price**: fixed just before the harvest begins (April/May) FORMULA

{[(World Price – (Insurance, Freight, Quality Differential, Transaction Fees)) x Exchange Rate] x Ginning Ratio + Net Seed Value) X Negotiated Producer Share

% of export income (currently 50%) shared with producers

1<sup>st</sup> or 2<sup>nd</sup> quality lint

Net value of seed after deducting 12% of total seed ginned to be returned to farmers

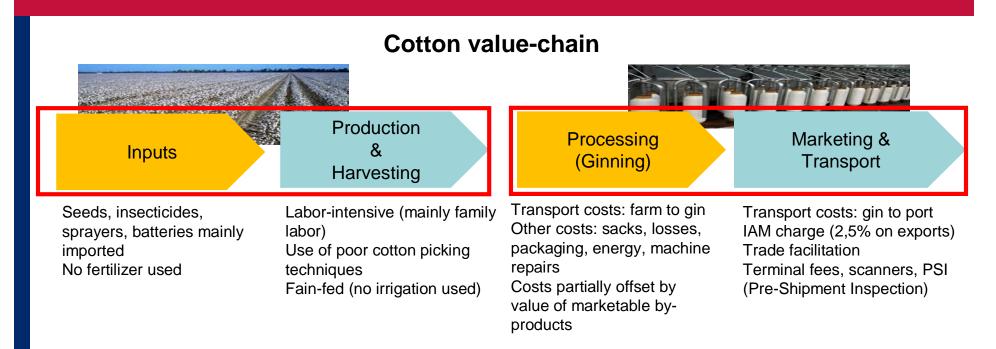


**Mozambique Cotton Institute** (IAM: Instituto do Algodão de **Mocambique**)

- Established in 1991 to support and supervise production, marketing, processing and export of cotton
- Works closely with ginning companies to promote efficiency and competitiveness in the industry
- Represents the state in concession agreements with private ginning companies
- Acts as buyer of last resort if farmers are unable to sell to the ginning concessionaire in their district



The competitiveness of Mozambique's cotton industry is affected by poor farm-level performance and high processing and logistics costs



### Sample FOB profitability analysis (based on 30MZN/\$ and 0.7 tons/ha)

Revenues negatively affected by poor cotton quality (causing price discount),low farm-level yields and low ginning ratio (causing low volume)		Ex-ginnery (FOB)	
	Gross Revenue (Metical/ton)	57,305	
	Costs (Metical/ton)	38,453	
	Profit (Metical/ton)	18,852	
	Cost-benefit ratio	0.67	

Transportation costs (farm-gin and gin-port) and ginning labor costs are important cost drivers



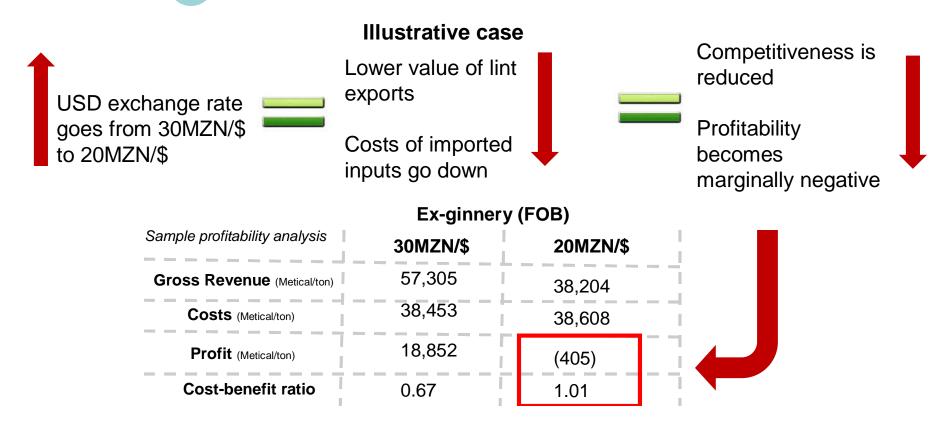
Appreciation of the Metical can wipe out Mozambique's cotton competitiveness

One of the potential effects of Mozambique's impending resource boom is an appreciation of the Metical (one consequence of the phenomenon known as "Dutch Disease")



This means buyers would need more units of their currency (for example dollars) to buy the same amount of Mozambican cotton lint

This would result in a loss of competiveness relative to other exporters whose currencies have not undergone a similar appreciation





An increase in cotton farm yields can help counter the effect of a stronger Metical

4 steps to improving competitiveness of the Mozambican cotton industry

Reduce transport and logistics costs •Improve road quality •Improve storage infrastructure •Increase port efficiency •Remove/Reduce non-tariff barriers (TEEN, PSI, Scanners) •Improve management efficiency Improve the overall business environment •Reduce bureaucracy/streamline processes •Eliminate illegal taxes

## Improve farm-level yields

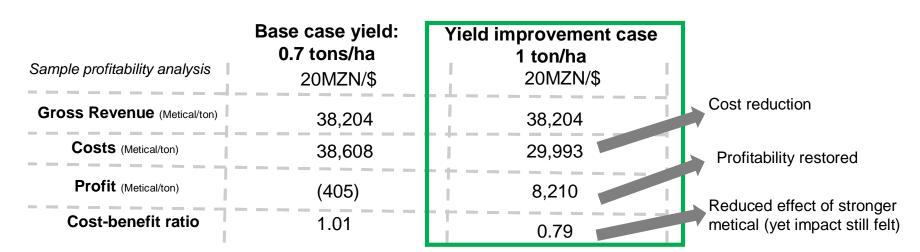
•Increase use of improved inputs (fertilizers, pesticides, seeds)

•Adopt modern harvesting techniques

•Eliminate bad practices: mixing of seed varieties, cotton mixing when bulking •Expand production areas

## Improve ginning efficiency

- •Upgrade processing machinery
- •Increase asset utilization
- •Improve management efficiency (waste reduction, quality control)







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