

## Preface

The challenges facing Mozambique in terms of sustainable human development are enormous, but the opportunities, chances and the need for rapid human development are still greater. That is why the central theme chosen for this first National Human Development Report in Mozambique is pertinent and just: peace and economic growth, opportunities for human development.

This theme reflects the frankness and clarity of the authors of this publication concerning the noblest aim of peace and economic development. Or rather, that the improvement of the human condition and of the capacities of Mozambicans go well beyond the absence of war and positive and speedy economic growth.

The report applies with perspicacity and creativity the vision contained in the concept of human development, defined ever since the first Human Development Report in 1990 as “the process of enlarging people’s choices”.

But apart from the high quality debate that the chosen theme provides, the Report is important for at least three other reasons. First, it brings together a wide range of statistical data from the most up-to-date that are currently available. These figures, and others that will be published in the immediate future, will certainly make possible a deeper analysis of the social and economic situation of the country undertaken by researchers and institutions.

Secondly, the Report uses the available data and the methodologies drawn up by the global Human Development Reports to make a valuable contribution towards a more updated estimate of the Human Development Index (HDI). While UNDP’s (global) Human Development Report 1998 recently showed that Mozambique’s HDI remained constant between 1994 and 1995, the evidence presented here on HDI trends over the past three years are more encouraging. It is estimated that the HDI improved by an average of 12% a year between 1995 to 1997, advancing from 0.281 to 0.350. If the country grows as forecast this year, then the HDI may reach 0.357 in 1998.

A third important aspect concerns the percentage contribution of the three HDI components. As the Report shows, life expectancy and educational level have been the components with the greatest weight in the composition of the HDI. Over the last two decades each of these two components contributed slightly more than 40%. On the other hand, the contribution made to the HDI by living standards (measured by real per capita GDP) has been lower than 20%. This means that for about 20 years, personal income has been the component that contributed least to the human development of the majority of Mozambicans.

However, in this area too the data available in the report allow us to infer that the country’s situation seems to be changing in a positive direction. Per capita GDP grew from US\$95 in 1995 to US\$128 in 1997, and it is forecast to reach US\$143 in 1998. As the Report shows, this economic growth is already reflected in an increase in the HDI, and very soon the economy could become the most dynamic component in the human development of Mozambicans.

But for this to happen, the report insists, the country will need more economic growth, and never less. The great question raised by this Report is: what sort of growth?

One should not forget that within southern Africa Mozambique has had the lowest per capita GDP, the most precarious school enrolment rate, and one of the lowest life expectancy indices.

The low level and the fragility of the human development indices in Mozambique sum up the enormous challenges the country will have to meet in order to ensure the consolidation

of peace, democracy and national reconciliation. Economic growth cannot be something that is merely quantitative. Improving the human condition of the population, and a true enrichment of the lives of Mozambicans are indispensable and urgent. That is why the question this Report poses for debate is legitimate and timely.

This first National Human Development Report, sponsored by the United Nations Development Programme (UNDP), seeks to stimulate reflection, on the part of citizens themselves on the development challenges facing Mozambique.

The analyses expressed in the report result from a professional partnership among researchers most of whom are Mozambicans, and who are independent of UNDP itself. The ideas reflected in the report do not necessarily reflect the opinion of UNDP. But what is most important is that Mozambican intellectuals themselves responded enthusiastically to our challenge: they met together in a professional collective that critically and systematically examined relevant facets of development in Mozambique.

From the start, our stress was always on placing Mozambicans at the forefront of this work so that Mozambicans themselves would debate the problems of their country's development. The initiative took shape in some informal meetings at which personalities from various spheres of Mozambican social, economic and political life met together.

Out of the broader collective came a more operational group, with the task of conceptualising the report and controlling its technical quality. Several independent academics and researchers were involved in drawing up the contents of each chapter. An independent research organisation acted as the co-ordinating agency providing technical assistance, as well as editing and publishing the report. UNDP's role was limited to that of a moderator, and to financing, and encouraging the work.

This modus operandi was an innovation in the way UNDP has worked in Mozambique. But it was based on the philosophy of smart partnerships to which UNDP wholeheartedly subscribes. UNDP wishes to embrace this inclusive and participatory mode of functioning in the future, not only in further National Human Development reports, but in the scope of other initiatives too.

This experience with the first Mozambican National Human Development Report was a gratifying one. In addition to an intellectual product of quality enshrined in this report, we are confident that all those who participated in drawing it up enhanced their own analytical capacities in the process.

I feel extremely pleased with the report, and I subscribe to the position of its authors when they state, in the Introduction, that their intention is not to be restrictive and linear in the reflections presented here. The Report merely intends to make a contribution to a broader and constructive debate about the difficulties, challenges and opportunities for development in Mozambique.

Emmanuel Dierckx de Casterle  
UNDP Resident Representative  
Maputo, December 1998

## List of Acronyms

AIDS	Acquired Immune Deficiency Syndrome
DNE	National Statistics Board
GDI	Gender-related Development Index
GDP	Gross Domestic Product
GDPmp	Gross Domestic Product, at market prices
GHDR	Global Human Development Report
HDI	Human Development Index
HDR	Human Development Report
HIV	Human Immune-deficiency Virus
HPI	Human Poverty Index
IAF	National Household Survey on Living Conditions
IDS	Demographic and Health Survey, 1997
INDER	National Rural Development Institute
INE	National Statistics Institute
IMF	International Monetary Fund
MPF	Planning and Finance Ministry
NGO	Non-Governmental Organisation
PNP	National Population Policy
PPP	Purchasing Power Parity
PRE	Economic Recovery Programme
PRES	Economic and Social Recovery Programme
PROAGRI	National Agricultural Development Programme
TGF	Global Fertility Rate
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme

## Introduction

Peace and economic growth, with or without human development? This is the great challenge that faces Mozambique today. This is a southern African country where the majority of the people ardently wish for two things: that the devastating war they suffered up until 1992 should never happen again; and that the revival of economic growth should promote their human development.

Will these two wishes be granted? Who is benefiting from peace? If there is growth currently in Mozambique, what is growing and for whom? The growth of absolute poverty for the great majority, or the growth of ostentatious incomes for a small minority? The growth of social and civil security, or the growth of crime? Economic growth that promotes the human development of Mozambicans, or growth that is exported to soften the country's indebtedness? The growth of democracy and participation, or the growth of political apathy and abstention? The equitable growth of human development, or the inhuman deepening of inequalities between the sexes, and between social, ethnic and racial groups?

These questions, among many others, are extremely relevant for today's Mozambique. They are questions that concern and worry most people, because they reflect the difficulties and the profound longings of Mozambican citizens. They are therefore insistently discussed at various levels: from political and governmental bodies, through the extensive exchanges of opinions in the mass media, down to the informal daily conversations between individuals.

The doubts about the future of Mozambique do not derive from skepticism and unfounded disbelief. On the contrary, they arise from deep causes which go beyond the borders of Mozambique itself.

Indeed, many other countries, in Africa and beyond, have not suffered the armed conflicts and radical changes that Mozambique has experienced over the past two decades. However, these countries also face serious difficulties in order to ensure that their economic growth and human development advance together and in a coordinated fashion.

This means that the divorce between economic growth and human development is not something exclusive to Mozambique, but is a challenge for all countries. Therefore, the kind of questions posed here are also frequently discussed in forums, conferences and in the international press. They concern, and are relevant to, the majority of people throughout the world.

The idea that the link between economic growth and human development is not automatic has been discussed vigorously in a series of works published by the United Nations Development Programme (UNDP) - here referred to as Global Human Development Reports (GHDRs).

The eight GHDRs that have been produced annually since 1990 have investigated a wide range of fundamental questions concerning development. They have done so through a conceptual and methodological framework which leads to trustworthy and useful results so that political decision-makers and planners can design more appropriate development strategies for their countries. Perhaps even more important, the GHDRs have undertaken their research by following a vision that is explicitly more centred on human capacities than were the perspectives internationally accepted up until the early 1990s.

Since the appearance of the first GHDR, this series of publications has challenged two ideas that are intimately linked: (i) that all economic development automatically promotes human development; (ii) that economic growth is, in its initial stages, inevitably associated

with a deterioration in the distribution of income for the majority of the population of a given country.

Thus the theoretical vision presented in the GHDRs ran counter to traditional perspectives, and this has immediate and important political and practical implications for countries such as Mozambique.

If the link between economic growth and human development is not automatic, then such linkages have to be created. Or, as the 1996 HDR put it, “they have to be deliberately forged and regularly strengthened by a skillful and intelligent management policy”.

The current publication is the first attempt to draw up a national report on human development, inspired by the tradition of the eight GHDRs already published.

Associating this national report with the GHDRs is not an attempt to shelter the analysis presented here behind the scientific and political authority that the GHDRS have obtained internationally. More than just an appeal to authority, this work found in the GHDRs analytical and methodological tools that were operational and useful for deepening the debate on development in Mozambique.

Since this is the first report of national scope, Part I begins by presenting the analytical and methodological foundations on which the new vision of development rests.

This vision is centred on the concept of “human development”. This is a simple concept, accessible to ordinary thought, but which synthesises great complexity.

A further important issue dealt with in Chapter 1 concerns the way in which the concept of human development has been transformed into operational indicators that can be measured. Thus Chapter 1 defines the concept of human development; and shows how this concept has been converted into specific indices, such as the Human Development Index (HDI), the Gender Related Development Index (GDI), and the Human Poverty Index (HPI).

Chapter 1 also explains how the HDI is calculated, using the example of Mozambique in 1994 and 1995, the two most recent years for which trustworthy data exist.

Chapter 2 provides a brief description of the human development situation in Mozambique compared with that in neighbouring countries, in southern Africa and sub-Saharan Africa, and in the world in general. Chapter 2 also presents some considerations on possible lines of future research into the HDI, for studying regional and provincial differences, and differences between the sexes and between the main ethnic groups.

Part 2 of the report explores the basic question raised by this report: peace and economic growth, with or without human development?

The main argument in this second part of the publication is that Mozambique needs to ensure a transition from nationwide lack of security to real, human security.

Human security includes two major components: freedom from fear and freedom from want. While freedom from fear can be achieved through effective social peace, freedom from want can only be achieved through sustainable human development.

Chapter 3 concentrates on the first component of human security: freedom from want and the instrument for achieving this, social peace. This chapter shows that Mozambican society possesses mechanisms for consolidating and preserving social peace and not merely for postponing armed conflicts and war. Chapter 3 analyses the mechanisms that can strengthen social peace, including articulation between the tools and methods of justice in a modern state, and traditional practices of justice. In this context, the building and consolidation of a modern state involves creating mechanisms for broad participation by individuals, which in turn implies effective administrative decentralisation.

But for how long can freedom from fear and from personal, political and community aggression survive without freedom from want? Certainly not for very long.

Thus Chapter 4 deals with the second major component of human security: freedom from want.

The determining factor for the prosperity and human development of Mozambicans is not the existence in their country of vast natural resources and wealth. What is determinant is the way in which such resources expand people's well-being.

The aim of Chapter 4 is not to provide an exhaustive socio-economic analysis of Mozambique. More important for the purposes of this national report is to place under debate the fundamental question enunciated here.

Thus Chapter 4 begins by discussing, on the one hand, some important aspects of the reforms in the productive sectors and, on the other, the corrections of macro-economic imbalances, namely: in the structure of the trade balance, in foreign exchange management, and in relative prices.

The final part of Chapter 4 is dedicated to a case study which illustrates the impact of current social and economic policies and the challenges of development in Mozambique. The case discussed concerns the controversy over the development of cashew nut production. It is an interesting and useful case for understanding the complexity of the ties and agents of economic growth and human development in Mozambique.

The cashew case is not unique, but it is perhaps one of the most illustrative and fascinating in the way it allows us to express the main actors in the linkage between growth and development. First, cashew nuts are among the main cash crops and sources of foreign exchange. In the mid-1990s, exports of cashew nuts were the third largest source of export revenue for Mozambique, after prawns and cotton (INE, 1996). Secondly, cashew involves agriculture and industry, as well as domestic and foreign trade. Thirdly, the controversy over cashew policy has raised important questions about the influence of producer prices and marketing; the development of human resources, infrastructures and choices of technology; and the question of poverty alleviation and the ways of ensuring that the Mozambican population can achieve freedom from want.

Chapter 5 summarises and systematises the discussion of the previous chapters in terms of the basic goal of a human development strategy in Mozambique. What strategy could this be, when it is known that, at the rates of progress of the last two decades, Mozambique would need more than two centuries to achieve the HDI level of the industrialised countries? Only a strategy, or rather a series of combined strategies, that strengthen the linkages between economic growth and human development.

This publication shows that during the past two or three decades political, institutional and economic crises have sabotaged the human development of Mozambicans. However, if social and economic revival continues at the current pace, very soon economic growth may find difficulty in sustaining itself because of the low level of technical training and general human education.

The value of this work on human development in Mozambique will be all the greater, if it makes a major contribution to a deep and constructive debate on strategies and programmes appropriate to the needs of the Mozambican population. But the quality of such a debate depends, above all, on the validity and relevance of the questions that are raised, and on the quality of the empirical data, particularly the statistics, on which the reflections are based.

The statistical data available in recent years have shown problems of consistency and updating. But in 1996 and 1997, the National Statistics Institute (INE) drew up three very important sources of national data: namely the National Household Survey on Living Conditions, 1996-97 (IAF); The Demographic and Health Survey, 1997 (IDS97); and the General Population and Housing Census, 1997.

The statistical appendix to this report is designed so as to cover the main dimensions of human development in Mozambique. First, it presents a demographic profile of the population. Secondly, the data characterise social conditions, capacities and opportunities. Thirdly come the data on economic conditions, capacities and opportunities.

This first report does not explore the enormous wealth of information that the surveys, censuses and other national sources of statistical data contain. On the one hand, a significant part of this data is not yet available for detailed analysis. And on the other the central question chosen for debate in this first report deserves to be discussed, at least in an initial phase, in the general and national terms presented here.

If this report becomes the first of many others, that are deeper and more detailed, then in the near future it will be possible to make more exhaustive reflections, based on trustworthy and up-to-date data on human progress and human deprivation in Mozambique.

Finally, it is hoped that the questions and analyses presented here will be useful in helping political, technical and administrative leaders design, implement, monitor and assess the impact of their development strategies and programmes.

# PART 1

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## PEACE AND ECONOMIC GROWTH: OPPORTUNITIES FOR HUMAN DEVELOPMENT

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### Chapter 1 – The conceptual and operational framework for human development

#### *What is human development?*

The concept of “human development”, in the perspective proposed by the GHDRs, appeared for the first time in the 1990 Human Development Report (HDR), where it was defined as “the process of enlarging people’s choices” (UNDP, 1990: 10). The 1990 HDR introduced this concept by stating:

“People are the real wealth of a nation. The basic objective of development is to create an enabling environment for people to enjoy long, healthy and creative lives. This may appear to be a simple truth. But it is often forgotten in the immediate concern with the accumulation of commodities and financial wealth” (HDR, 1990: 9).

Human development, as conceived in the perspective of the GHDRs, is an important contribution to development theory. The concerns behind this concept reflect a growing frustration with the dominant development strategies of the 1970s and 1980s. This frustration is not only repeatedly debated in each of the GHDRs, but is evident in the very need to use the word “human” in this new concept of development.

As Mia Couto asks in Box 1.1: “Do we understand this term in the same way? .... Can we talk of a non-human development?”

Couto is right to suspect “...that this qualification responds to a kind of distortion previously practised. The simple fact that we need the adjective “human” in the end points to the need to humanise development”.

Indeed, the concept of human development was motivated by a multiplicity of factors, namely: the conviction that not all economic growth led to expanding total human capacities; the confusion between means and ends in development strategy; the reduction of human development to the increase in “human capital”, conceived of in terms of the profit that people produce, rather than in valuing human life and human choices that go much further than economic well-being.

It should be stressed, however, that the GHDRs always made it clear that interest in the concept of human development is nothing new. Box 1.2 contains an extract from one of the GHDRs with a brief description of the historical roots of this concept.

It is not the purpose of this Chapter to deepen the intellectual debate about the many existing concepts of development. What we intend to stress, mainly for readers less familiar with such debates, is that the concept of human development did not appear in the 1990s by simple coincidence, or without a specific strategic reason.

Another important aspect is that, at first sight, the concept of human development may seem excessively simple for it to be regarded as more original and operational than many other



concepts of development. But the simple definition of human development given above possesses a deceptive simplicity: not only is it richer and more complex than it seems at first glance, but it also points towards important revisions in development strategies and programmes as they are currently practised.

Obviously, just as with any other concept of development, there are aspects which are extremely difficult to quantify.

But among the countless aspects of the total development of human capacities, the GHDRs singled out three that are indispensable so that individuals may expand their opportunities in life: living a longer and healthier life, being educated, and enjoying an adequate living standard.

Whatever may be the limitations of making the concept of development operational in this manner, it has proved original and effective for various purposes. First, the GHDRs recognise that the total development of human capacities involves many other choices apart from the three dimensions mentioned above, such as: political freedom, the guarantee of other human rights, dignity, self-respect and respect for others. However, the transformation of the abstract and very general concept of “human development”, into operational definitions and indicators for measuring specific dimensions of human capacities has proved very effective for the debate on development.

Secondly, the specific indices derived from the concept of human development have made it possible to challenge conventional ideas about development. One of the main purposes of the GHDRs has been to provide an alternative to the traditional economic concepts used in analyses of development. Among the ideas most discussed and questioned in the GHDRs, there stand out: (i) the reductionist approach which assumes that the linkage between economic growth and human development is automatic; and (ii) the approach which argues that, in the initial phase of economic growth, deterioration in the distribution of income is inevitable. That is, that the benefits of reviving the economy only reach the hands of a rich minority (HDR, 1990, 1996).

## ***What is sustainable human development?***

Human development is the noblest goal of all forms of development: economic, political, social and cultural. Its purpose is what people are capable of being and doing.

What is their life expectancy? Do they have a healthy life? Are they able to read, write and increase their knowledge in order to benefit from the enormous scientific and technical progress in today’s world? Under what conditions do they live?

Do they have the financial and material resources for an acceptable life? Do they live in peace, and are they free from personal and political threats? Do the institutions and authorities of society guarantee respect for the dignity of the individual, including for his or her political, religious and moral opinions and choices?

Even if the response to the questions posed here is positive, it is important that the process of expanding individuals’ choices does not undermine the possibility of future generations also satisfying their needs and longings.

This is why in recent years there has been such insistence that human development must be sustainable. As James Gustave Speth, the UNDP Administrator, writes in the Foreword to the 1994 HDR:

“Sustainable human development is development that not only generates economic growth, but distributes its benefits equitably; that regenerates the environment rather than destroying

it; that empowers people, rather than marginalising them. It is development that gives priority to the poor, enlarging their choices and opportunities, and providing for their participation in decisions that affect their lives. It is development that is pro-people, pro-nature, pro-jobs, and pro-pro-women.” (HDR, 1994: iii)

## ***What measures of human development have already been established?***

The first HDR, published in 1990, proposed an index that would give a general measure of human development: this came to be known as the Human Development Index (HDI).

This index contains three basic components: longevity, educational level, and living standards. These three human dimensions are expressed, for the purposes of measurement, by the following variables: the index of life expectancy at birth; the educational index, measured by a combination of adult literacy and the rate of attendance in primary, secondary and higher education taken together; and standard of life, as measured by real per capita GDP (converted to dollars using purchasing power parities - PPP).

Apart from an aggregate and general measure of human development in any given country, the HDI makes it possible to place each country in a global perspective. In the GHDRs, countries throughout the world are classified into three groups:

- Countries with low human development (HDI lower than 0.500);
- Countries with medium human development (HDI between 0.500 and 0.799);
- Countries with high human development (HDI equal to or higher than 0.800).

Since the concept of human development is much broader than the HDI shows, the GHDRs have been constructing more specific and disaggregated indices, and the following should be mentioned:

### **GDI – Gender-related Development Index**

The GDI was introduced in the 1995 HDR. This index uses the same variables as the HDI, with just the following difference: the GDI adjusts the average achievement of each country in terms of life expectancy, educational level and income, in accordance with the disparity in the achievements of women and of men. The greater the disparity in basic human development, the lower will be the GDI of a country, compared with its HDI (HDR 1997: 124).

### **GEM - Gender Empowerment Measure**

The GEM, also introduced in the 1995 HDR, measures the inequality between the sexes in key areas of economic and political participation and decision making. The GEM uses variables constructed explicitly to measure the relative acquisition of power by men and women in political and economic activity. In particular, this measure takes into account the percentage of women in parliament, women’s percentage of administrative and managerial positions, their percentage shares of professional and technical jobs, as well women’s income when compared to that of men. Unlike the GDI, the GEM reveals inequalities in terms of opportunities in selected areas.

## **HPI - Human poverty index**

The HPI was introduced in the 1997 HDR, and it includes, in a composite measure, several characteristics of deprivation in order to reach an overall judgement about the extent of poverty in any given community.

The HPI concentrates on deprivation in three essential areas of human life, already reflected in the HDI: longevity, knowledge and a decent standard of living. The first deprivation concerns survival - vulnerability to death at a relatively early age. The second concerns knowledge - being excluded from the world of reading and communication. The third concerns a decent living standard in terms of overall economic provisioning. The recently published 1998 HDR, subdivided the HPI into two indices: HPI-1, used to measure poverty in developing countries, and HPI-2 used to measure poverty in developed countries.

All these indices, some of which are still being elaborated and improved, have provided new possibilities for deeper study of the human development situation, both in terms of enlarging the choices and capacities of individuals, and in terms of deprivation: such as poverty, precarious health conditions, illiteracy, a damaged environment, among many others.

Furthermore, the GHDRs also use other instruments to characterise human development. For example, each report contains an exhaustive statistical appendix, with more than 50 statistical tables on the scale of progress and deprivation in the world. Both the global indices and the statistical data are extremely useful for international comparison of the similarities and differences between countries.

## ***How to measure human development through the HDI***

The Human Development Index (HDI) does not seek merely to make it possible to classify the countries of the world according to the typology created by the GHDRs: high, medium and low human development.

The HDI is, above all, an instrument undergoing continual transformation, which can be used to reveal the progress and the gaps in countries' development processes and policies. The importance of the HDI lies in its use of the living conditions of human beings as the barometer to measure their prosperity. It should therefore be at the heart of debating and programming development activities.

The HDI is an inclusive methodology for measuring progress which attempts to go beyond the routine of the traditional macro-economic indicators used in the past. It combines two measures of physical and educational capacity, with one indicator of purchasing power, measured through average per capita income. For purposes of measurement, the HDI includes these three human dimensions into an index composed of the following variables:

- Life expectancy at birth;
- Adult literacy;
- Gross school enrolment rate;
- Real per capita Gross Domestic Product (GDP).

Table 1.2 shows how to calculate the HDI, taking the specific example of the Mozambican HDI in 1994 and 1995. These are the two most recent years for which the GHDRs have estimated the HDI of Mozambique (HDR, 1997, 1998).

The four variables which comprise the HDI are measured in different units: life expectancy in years of life; adult literacy and gross school enrolment rate in percentages; and income in dollars adjusted to purchasing power. To combine these indicators, the various values of each

variable are placed on a scale from zero to one, where zero is the minimum and one the maximum.

For the four HDI variables, minimum and maximum values have also been established: life expectancy at birth (25 years and 85 years); adult literacy, with two-thirds weight (0% and 100%) and combined gross enrolment ratio, with one third weight (0% and 100%); real GDP per capita in PPP\$ (100 and 40,000 PPP\$).

For each component of the HDI, the individual index is computed according to the general formula:

$$\text{Index} = \frac{\text{Actual } x_i \text{ value} - \text{Minimum } x_i \text{ value}}{\text{Maximum } x_i \text{ value} - \text{Minimum } x_i \text{ value}}$$

Thus, when considering life expectancy at birth in Mozambique, which was 46.0 years in 1995, then, as table 1.2 shows, the life expectancy index for this year is estimated at 0.350:

$$\text{Life expectancy index} = \frac{46 - 25}{85 - 25} = 0,35$$

The construction of the income index is more complex than that of the other two indices. The real GDP index is first adjusted in accordance with a threshold determined by the world average income. This is the threshold regarded as indispensable for people to attain a decent living standard. The 1998 HDR estimates average world income in 1995 at US\$ 5,990 (PPP\$). Any income above this threshold is discounted using Atkinson's formula for the utility of income:

$$\begin{aligned} W(y) &= y^* \text{ for } 0 < y < y^* \\ &= y^* + 2[(y-y^*)/2] \text{ for } y^* < y < 2y^* \\ &= y^* + 2(y^*/2) + 3[(y-2y^*)/3] \text{ for } 2y^* < y < 3y^* \end{aligned}$$

$$\begin{aligned} W(y) &= \text{adjusted per capita income} \\ y^* &= \text{threshold of per capita income} \\ y &= \text{country's actual income} \end{aligned}$$

In the case of Mozambique, the 1998 HDR estimated the 1995 real per capita GDP at 959 dollars (PPP\$). This sum is below the threshold mentioned above, and thus does not need adjustment. Calculating the per capita adjusted real GDP is undertaken as shown in table 1.2.

Finally, the HDI is estimated as a simple average of the life expectancy index, the educational index, and the per capita adjusted real GDP index (in PPP\$). The sum of these three indices is divided by three.

Table 1.2 shows that Mozambique's HDI was estimated at 0.281 in both 1994 and 1995.

In Chapter 2 we return to these calculations in order to present them in the context of estimating the HDI for the period 1996 to 1998.

It is also important to mention that all the GHDRs contain detailed technical notes which explain the properties of the HDI and how it is calculated. Between 1990 and 1994, the HDI underwent successive modifications, in response to pertinent observations. But as from the 1994 HDR, the HDI methodology has been standardised in order to make this index more precise, and to make it easier to describe its evolution over time (HDR, 1994: 90-95).

## ***For human development research inside the country***

National statistics synthesise the diversity and complexity of the country's specific situation. Such a synthesis is useful because starting from simplified and aggregate measures, such as the GDP or HDI, it is possible to compare the countries of the world in terms of the distance they have to go to reach certain growth and development targets.

However, many of the national indicators inevitably hide important differences and disparities within a country: between provinces, or rural and urban areas; between sexes, ethnic groups, races, and social groups.

So that the national aggregates may be of greater use in formulating specific policies and action plans, it will be necessary to bring the reflection in from the international and national levels, and down to more disaggregated levels of the breakdown of the population, by, for instance, the main regions of the country, the provinces and the districts.

In the Introduction it was stated that this first report does not intend to undertake a disaggregated analysis of the human development situation within Mozambique. Several reasons justify this choice. First, this report intends merely to set the agenda for a systematic and gradually more detailed debate on human development in the country. Rather than trying to discuss badly all dimensions of human development, it was decided to take an important question and debate it as well as possible.

The theme chosen for this report can and should be debated in its implications for the country's regions. But it is justifiable that at an initial stage it be approached in this general perspective we are following, since the major aspects discussed here are relevant to all regions of the country. Secondly, the indices described in this chapter certainly make it clear that an analysis broken down by region, province or district requires two important things.

First, it requires up-to-date and trustworthy data. And second, it requires appropriate methodologies for calculating specific human development indices. Right now, the existing methodologies only allow tentative and partial estimates.

## **Chapter 2 – The general human development situation in Mozambique**

This chapter provides a brief description of the human development situation in Mozambique. First it gives some of the basic facts about the country and its population. This information seeks merely to set the context for the human development situation in Mozambique. Secondly, it describes the human development situation of Mozambique in the world generally, and particularly in southern Africa and sub-Saharan Africa. Thirdly, it presents the evolution of the levels and trends in the Human Development Index (HDI) over time, between 1960 and the present, including an estimate for the HDI between 1996 and 1998.

### ***The country and its population***

Mozambique is located in south-eastern Africa between parallel 10 degrees 27' North and 26 degrees 52' South, and between meridian 30 degrees 12' East and 40 degrees 51' West. Covering a surface area of 799,380 square kilometres, it borders Tanzania to the north, Malawi, Zambia, Zimbabwe and South Africa to the west, and Swaziland and South Africa to the south-west and south. To the east, the country is washed by the Indian Ocean along a coastline that extends for 2,515 kilometres.

Within Mozambique, three types of landscape can be distinguished. The southern coastal plains, which rise to about 200 metres above sea level, cover about 44% of the territory. The plateaux, between 200 and 1,000 metres above sea level, cover about 43 per cent of the territory, mainly in the centre and north. The great plateaux and mountain ranges, over 1,000 metres above sea level, are in the interior and cover about 13% of the territory.

Mozambique's water resources include more than 60 rivers, lakes and lagoons. The climate is predominantly tropical, with three main sub-climates: a humid tropical climate in the north, centre, and southern coastal areas; a dry tropical climate in the south and the Zambezi valley; and a high altitude tropical climate in the interior mountain regions. The country's flora is mainly of the dense, open forest and savanna types (INE, 1996, 1998b).

### **Evolution and size of the population**

The available national demographic data enable us to describe the historical evolution, at least in the second half of the 20th century. In 1950, the Mozambican population was about 6.5 million. From then on the population has grown at an accelerated pace, reaching 7.6 million in 1960, 9.4 million in 1970, 12.1 million in 1980, and 14.2 million in 1991 (see Table 2.1 and graph 2.1).

Table 2.1 shows that between 1950 and 1991 the population growth rate rose from 1.5% per year in 1950-1955 to 1.8% in 1960, 2.3% in 1970, 2.7% in 1980, and 2.6% in 1991. This means that at the start of the 1980s, the population growth rate reached its highest level of the past five decades, and probably of the entire 20th century (INE, 1997: 7).

This evolution of the size of the Mozambican population shows that it doubled between 1950 and the late 1980s. Furthermore, Mozambique is currently the third most populous country in southern Africa. The first is South Africa with 40.6 million inhabitants, followed by Tanzania with 29.2 million (UNDP, 1997: 194-195).

Until the end of 1997, it was estimated that, in the 1996-98 period, the Mozambican population was somewhere between 18 and 19 million. However, the publication of the

preliminary results from the 1997 census, gave the counted population of Mozambique in 1997 as 15.7 million (See Table 2.2).

If we take into consideration the rate of census omission, estimated at 5.1%, the adjusted population for 1996, 1997 and 1998 is 16.2, 16.5 and 16.9 million, respectively (INE, 1998).

The data in table 2.1 and Map 2.1 also show how the population is distributed, in terms of density. The average in the country as a whole is 20 inhabitants per square kilometre. But the density varies greatly, from Maputo City, with the highest population density, of more than 3,000 inhabitants per square kilometre, to Niassa province, with the lowest, of just six inhabitants per square kilometre (Map 2.1).

The reference to the discrepancy between the data available up until the end of 1997, and the data provided by the 1997 Census is important, since many of the analyses in current use are still based on the former. These estimates rested on projections from the data in the 1980 Census and the National Demographic Survey of 1991 (INE, 1995).

As with all estimates based on projections, the results obtained depend mainly on assumptions about the behaviour of the main components of demographic change, namely fertility, mortality and migration.

As the data from the 1997 census become available, so it will be possible to update and correct existing estimates for a wide range of demographic, social and economic factors, such as: per capita income, growth of the school age population, health service needs, and the labour force, among others.

Later we shall return to this point to mention an aspect that is particularly important for this work, concerning the current estimate of per capita Gross Domestic Product (GDP) in Mozambique.

But it is important to note that the rapid population growth mentioned above arises from the different trends in birth rates and death rates in the second half of the 20th century.

During the 1950s and 1960s the birth rate remained relatively constant at high levels, of around 49 births per 1,000 inhabitants. This rate has undergone slight alterations, falling to 48 per 1,000 in 1970, 47 per 1,000 in 1980, and 45 per 1,000 in 1990. For its part, the death rate has undergone a significant decline over the same period. In 1950 there were 32 deaths per 1,000 inhabitants, but this fell to 20 per 1,000 in 1990. The sharpest fall in mortality, particularly infant mortality, occurred in the first five years of independence (1975-1980), as a result of improved health, education and housing conditions.

Currently we do not as yet possess the detailed data from the 1997 census needed to estimate updated rates for natural population growth and total population growth.

However, the statistical appendix presents a series of tables with annual estimates and projections of the population, corrected on the basis of the preliminary data from the 1997 census. These data are summarised in Graph 2.2.

### **Composition of the population**

Women account for the majority of the Mozambican population. Graph 2.3 shows that in 1980, 51% of the population were women, and that by 1997 this figure had risen to 53% (INE, 1997: 9).

The historic evolution of the birth rate has led to a very young population structure, characterised by a very broad base, and a narrowing at the top. In 1990, those less than 15 years old amounted to 45.6% of the population; adults (aged 15 to 64) were 51.9%; and the elderly (over 64) accounted for 2.5%.

The Mozambican population is very heterogenous, due to a variety of factors: the geographical position of Mozambique; the political history of traditional, colonial and post-independence society; the differentiated insertion of the Mozambican economy into the regional and international economy.

The Mozambican population is predominantly rural. The IDS97 data show that 58% of the women interviewed are under 30, 24% are urban and 76% are rural. The pattern of urbanisation shown by IDS97 is consistent with other surveys, showing that 23% of the Mozambican population is currently living in urban areas (provincial capitals), but that almost half the entire urban population of the country is in Maputo City (INE, 1998c).

Graph 2.4 shows household composition. The 1980 census found an average of 4.3 persons per household, and the 1997 census showed a slight reduction to 4.2. However, IDS97 gave an average household size of 4.6 persons. This difference has not yet been explained, but it seems to be statistically insignificant. There are important methodological differences to be considered, since the IDS97 data derive from a sample designed differently from the data collection methods used in national censuses (for more details on average household size by province, see the statistical appendix).

According to IDS97, more than 70% of households are headed by men. About 12% of children do not live with their biological parents (INE, 1998c).

The most spoken mother tongue is Emakua, covering about a third of the population, followed by Cisena and similar languages with a quarter, Xitsonga with a fifth, and Xitswa with an eighth. About 5% of women and men declared that Portuguese was their mother tongue.

Much of the data from the 1997 census, needed for a deeper characterisation of the heterogenous nature of the population, is not yet available. However, there are the figures from IDS97 which allow us to characterise many aspects of living conditions, cultural, linguistic and religious diversity, and the reproductive behaviour of the population. The statistical appendix includes several tables with data from IDS97 on education, health and other living conditions of the population (INE, 1998c).

## ***Survival and reproduction***

In the mid-1990s Mozambicans' life expectancy was four years lower than the average, both of sub-Saharan countries and of low income countries. Also below the average were adult literacy rates, school enrolment rates, as well as indicators on mother and child health.

In the post-independence period, the government expanded primary health services to the rural areas, on the basis of a health programme resting on the communities and on production centres. In 1982, there were 1,373 health units in the country, but by 1987 a third of these units had been destroyed or closed (INE, 1996).

With peace, the situation improved. In 1995 about 1,300 health units were operational. However, even if this figure is an underestimate, and even had a total recovery of the health network to the level of the early 1980s been achieved, per capita health coverage would still have declined considerably as a result of the growth in the need for health care.

About 39% of the population has access to health services, although there are significant variations. In 1996 there was an average of 24,561 inhabitants per health post, 76,338 inhabitants per health centre, and 667,961 inhabitants for each rural hospital. In terms of the availability of health staff, it was estimated that in 1996 there was one health worker with higher training available for each 39,362 inhabitants, and one health worker with basic training for each 4,505 inhabitants (INE, 1998c).



Longevity, measured as life expectancy at birth, is currently estimated at 46 years for the population as a whole. This breaks down into 47.5 years for women and 44.5 for men. Other indicators of mortality remain very high: the gross mortality rate is estimated at 18.6 per 1,000 inhabitants; the infant mortality rate, estimated by IDS97, is 134 per 1,000 live births; the maternal mortality rate is estimated at 1,500 per 100,000 births. AIDS is becoming an increasingly serious problem, in that currently about 10% of adults are thought to be HIV-positive (INE, 1998c).

As for other aspects of living conditions, IDS97 contains updated figures on housing, showing that the majority of the population are without essential services, including electricity and sanitation. According to IDS97, only about 6.5% of the population has access to electricity. In residential terms, only 25% of homes in urban areas, and 2% in the countryside had electricity. However, this was a 21% improvement on the figures for 1980.

Health conditions are very precarious: 49% of households are supplied with water from public wells, 30% from surface water sources, 20% have piped water supplies, and less than 1% use rain water. Only 20% of households have access to potable water. This breaks down into 8% of households in the countryside and 70% of households in the urban areas. Only 3% of households have access to appropriate waste disposal.

As for the birth rate, fertility and reproduction, the gross birth rate estimated by IDS97 is 45.2 per 1,000 inhabitants. The global fertility rate for the period 1992-1997 is 5.8 children per woman.

The most recent data on fertility show a decline when compared with fertility two or three decades ago: the 1980 census estimated the global fertility rate at 6.4, and the 1991 National Demographic Survey estimated it at 6.2.

However, data in the IDS itself suggest that the current fertility rate has remained virtually constant or has undergone only a slight decline. Only more detailed data from the 1997 census can establish whether, over the last two decades, Mozambique has experienced a reduction in fertility.

Graph 2.6 shows, however, that fertility levels vary greatly between provinces. Manica and Tete provinces have the highest global fertility rates, 7.6 and 7.0 children per woman respectively, while Maputo City has the lowest global fertility rate, 4.0 children per woman (INE, 1998c).

More than 40% of women want six or more children. The average ideal number of children for women is 5.9, as against 7.4 for men.

These figures are relatively higher when women or men are living together or are married. In the specific case of men in polygamous unions, the average ideal number is 10.6 children per man.

The average age for the start of procreation is 19, and this is identical in urban areas (18.9 years) and rural ones (19.1 years). Married women living with their husbands, who account for 74% of all women of reproductive age, have an average of four children per woman, of whom three are currently alive. The average number of children of women who have completed their reproductive life is 5.7, of whom 4.1 are still alive.

In Mozambique, knowledge of modern contraceptive methods remains very low: about 40% of women and 33% of men do not know of a single modern contraceptive method.

The use of contraceptives is higher among married men than women: 7% against 5% for modern methods; 3% against 0.5% for traditional methods (INE, 1998c).

## ***Education and human development***

At the start of the 1990s, the differences in schooling between the sexes remained clear and sharp: a little more than 20% of women, but more than half of men, knew how to read.

This imbalance between the sexes reflects the trend in school attendance rates. In 1990, about 1.3 million children enrolled in the first level of primary education. This figure increased to 1.4 million in 1995, as a result of the re-establishment of peace.

But the proportion of girls dropped slightly from 43% in 1990 to 42% in 1995. These facts were associated with a substantial decline in the gross rate of female entry into school.

Compared with the indices of sub-Saharan Africa and of countries with a similar income, school attendance rates in Mozambique are low for both sexes.

This profile presents a change in comparison with the first years of independence, when the new government made spectacular improvements in entry levels for primary and secondary education. These successes were reversed by the war, which destroyed, or forced the closure, of thousands of schools.

As from 1975, education came to be viewed as the priority axis for post-independence development programmes in Mozambique.

Between 1975 and 1982, the concept of education as a fundamental component of the programmes for developing society was characterised by the priority granted to basic, technical and professional education, and adult literacy classes. The political basis of the philosophy of the educational system preceding the National Education System are to be found in the nationalist struggle. This system had a “national character”, and its aim was to respond to the specific needs to train up human resources to serve a particular political model.

With independence in 1995, the political will was consolidated and systematised around Marxist-Leninist theory, in terms of the organisation of the state, the economy and society.

But what was most relevant in this systematisation was the Prospective Indicative Plan (PPI), which envisaged the elimination of underdevelopment in 10 years.

In general, analysis of the results of the PPI and of the new administrative organisation is negative. Some argue that a lack of tact and of understanding the importance of cultural factors led to the failure of these two strategies. Others stress the “uniformity” that the consolidation of independence implied, and also the adoption of strategies in a situation of conflict in the region.

In quantitative terms, the results of this period were exceptional. The explosive increase in school entries, the expansion of the school network, and above all the creation of training centres for primary teachers, showed the quantitative success of the projects (see the tables in the statistical appendix).

Between 1983 and 1989, the main successes in implementing the National Education System (SNE1) were related to establishing, organising, and improving the operations of the bodies that design, implement and assess the teaching-learning process on the one hand, and assessment of the performance of the direct agents in the schools, on the other.

The major challenge facing the SNE1 was providing jobs for school graduates. Until 1987, the state still had some capacity to absorb the graduates.

The introduction of the Economic Recovery Programme (PRE) in 1987 had two serious impacts: internal mobility of labour, as trained staff flowed away from education into the private sector and to international and non-governmental organisations, and the inability to place teachers in the provinces with poor school graduation rates. Attempts to correct this

situation were only launched as from 1990, but took on clearer shape as from the Programme of 1995.

The second major challenge of this period was to recover the infrastructure destroyed by the war, and which had an impact on training capacity. As from 1985/86 the school network had been drastically reduced.

The third challenge was the acceptance of the need for impact assessment in the Ministry of Education, more specifically in the area of planning and curriculum development in order to evaluate the efficiency and effectiveness of the system. This assessment showed that there were some imbalances within the system.

The first concerned the incompatibility between the SNE and the plan for developing human resources: the two seemed to be out of sync.

The second concerned the programmatic content which was structurally and culturally out of tune with the cultural context of the target public. Although the evaluation of the programmatic content recognised the merit of the work undertaken since 1976, it is legitimate to question the epistemological basis of the body responsible for training teachers and other educational staff, namely the “Staff Training Commission” which formed part of the Textbook Development Commission.

### **The effects of peace**

The 1990-1994 period was important in education for three reasons:

- This was the period of the end of the war, starting with the negotiations which led to the General Peace Agreement in October 1992. The negotiations which produced the peace agreement had their real beginnings much earlier. These included the Nkomati Non-Aggression Accord between Mozambique and South Africa, and the initiatives of Mozambican religious institutions with the government and with Renamo which led to the peace negotiations in Rome.
- There were internal changes in the Frelimo Party which led to enormous transformations such as the amendment of the Constitution, completed in 1990; the Law on Political Parties of 1991; the 1991 press law; the reform of the law on the National Education System in 1992; and the 1993 Law on Higher Education. (Machili, 1995: 395).
- It was during this period that that first multi-party elections were held.

The relationship between this period and the preceding ones, concerning the training of human resources is fundamental, since it allows us to appreciate the permanence of gains made earlier, the ruptures implied by these events, to identify successes and limitations of the period starting in 1995.

Finally, the years 1995-1998 are a “transitional” period, first because it was in these years that an educational programme was implemented as part of a national reconstruction strategy. Secondly, this was a period of transforming political institutions, particularly in the way that they operated, which was gradually reflected in the educational system.

Some characteristics of the most recent training process, not only in terms of human resources, but of human development in general, merit further consideration.

Currently, increasing attention is being paid to improving basic education, which is the backbone of the entire educational system. The plan places not only the rebuilding of infrastructure, but also the restructuring of teacher training at the heart of its performance.

Curriculum reform is taken as a reference point to attain quality of education. The starting point is primary education.

Long term planning in the Ministry of Education has taken shape in the Strategic Plan, preceded by a deep analysis of the National Education Policy.

The expansion of the school network in the districts, particularly EP2 (second level primary education), seeks gradually to reduce exclusion from access which is due, among other factors, to lack of accommodation in the boarding schools. What makes the transition programme attractive is the recognition of cultural diversity which it is intended to introduce in the design of programmatic content, something that was previously neglected because of the uniformity and other idiosyncratic dictates of the political regime (Mazula, 1996: 139).<sup>1</sup>

The programme's philosophy presents some specific characteristics that are important to bear in mind: the recognition of cultural ecosystems as the space and condition for the development of human resources; and the relationship between these ecosystems and the viability of development projects. This switch in direction is beginning to have a positive impact on changing attitudes. The main reference is no longer simply ensuring a return on financial investments, but also the gestation time for a process that produces quality effects.<sup>2</sup> Identifying priorities in planning and implementing the education programme involves two poles: primary education, and technical and professional education. The projections of these two types indicate the scale of the needs. Failure here could compromise the development process, particularly in the countryside.

The interdisciplinary nature of the education strategy is shown in the ongoing debate on the Strategic Plan, the National Education Policy, and the Curriculum Revision Programme. These indicate that the education being provided requires a change in attitudes (Chissano, 1997: 4) which will flow from the structure of the curriculum.

In the past three years of implementation, there have already emerged at least some indicators of an interdisciplinary nature. However, the level of education is beginning to be questioned from three angles.

First is the question of its social function in the current conditions of Mozambican development.

While it is necessary to ensure quality in accordance with international standards, the question posed is whether, under the circumstances of the country, one cannot advance gradually to a sustainable and integrated territorial network.

The second point is making the institutions yield a return, despite the serious budgetary limitations of public institutions. Third is the profile of the institutions and their strict complementarity with the lower levels of the National Education System.

The emergence as from 1995 of private universities such as the Higher Polytechnic and University Institute, the Catholic University of Mozambique, and the Higher Scientific and Technological Institute is a new phenomenon, which fills the niches constituted by the wealthier social strata.

To sum up, the education sector's programme opens broad prospects in identifying and defining priorities (basic and technical education), advocates the cultural basis as one of the key elements of the curricula, treats citizens as participants, and grants economic sectors the role of priority partners in programme implementation. This change of direction, perhaps still not very deep, is a significant innovation in Mozambican education.<sup>3</sup>

Weak human development in Mozambique in general is a matter of concern. But regional imbalances, resulting from differences in levels of development and access to resources,

infrastructure and social services at national level, draw a picture that is still more worrying, particularly if we take into account the close links between development, the maintenance of peace, stability and reconciliation.

The country's institutional fragility, as well as the large number of actors in the development process, means that the emergence of a culture of debate and participation, together with transparency in outlining and implementing policies, are important mechanisms for ensuring equity and justice, stability and the sustainability of development.

The donors, the government, civil society and political forces are actors with varying levels of influence in the search for solutions to the development challenges facing Mozambique.

The nature of the development challenges and the country's specific characteristics demand greater ingenuity in policy design so as to avoid worsening the serious social problems from which the country is suffering and which might, in the long term, jam the levers of development.

## ***Human development in Mozambique, the region and the world***

According to the international classification on human development, Mozambique is considered as a country with "low human development" (see HDRs, 1990: 185, 1994: 223, 1996: 225, 1997: 241, 1998: 224).

Table 2.3 shows the position of Mozambique, both in the southern African region, and in relation to the eight countries in the world that have a lower HDI.

Mozambique's HDI was calculated at 0.281, both for 1994 and 1995 (the years for which there exist international data). This means that in the mid-1990s, the level of human development in Mozambique was about 3.4 times lower than that of Canada, the country with the highest HDI (0.960) in the world.

In Africa, Mozambique's HDI is one third the level of that of the Seychelles (0.845), the country with the highest index in sub-Saharan Africa; it is about 48% less than the average for developing countries; it is about 80% of the average for the least developed countries; and it is about 74% of the average for sub-Saharan Africa (HDR, 1998: 130, 137).

When considered in the context of its region of southern Africa, Mozambique ranks last when it comes to human development. Among the 11 countries in southern Africa included in Table 2.3, five have medium human development, while the other six, including Mozambique, are among the countries with low human development.

As regards its position in terms of per capita GDP (PPP\$), human development in Mozambique is seven units lower.

This suggests that the country has not managed to convert its economic activity into corresponding improvements in living standards.

Table 2.4 presents a series of indicators on gender-adjusted human development in 1995, comparing Mozambique with the rest of sub-Saharan Africa, and the least developed countries. There are significant deficits both in literacy and in school enrolment.

Although gender differences are not analysed in detail in this report, Table 2.4 illustrates some important aspects in summary form. For example, the greatest deficits at the expense of women are in literacy and school enrolment.

But as for Mozambican women's share of income, unlike the men, they appear to earn more than the average in sub-Saharan Africa and in the least developed countries. Looking in depth at these questions in the interior of the country should be a priority for future work of this sort.

## **Human development trends in Mozambique and neighbouring countries**

In Chapter 1 the construction of the HDI was explained, showing that this index is a simple average of the life expectancy index, the educational index, and the index of real adjusted per capita GDP (in PPP dollars). It is thus possible to estimate the contribution of each of the three variables to the composite index over time.

In 1960, Mozambique was very close to the majority of southern African countries. But three and a half decades later, while countries such as South Africa, Botswana, Zimbabwe and Swaziland have progressed to a level of medium human development, the other countries remained at an extremely low level. In the particular case of Mozambique, between 1960 and 1994 the HDI increased by only about 66%. Why this slow human development in Mozambique?

Graph 2.9 illustrates the changes in the contribution of the three HDI variables in Mozambique, between 1960 and 1995.

In 1960, life expectancy and per capita GDP possessed the main weight in the HDI, with about 40% each, while educational level represented less than 20%. But 20 years later, the contribution of income level to HDI has dropped to about 15%. For their part, the other two indices contributed with about 44% each.

Finally, 14 years later, in the mid-1990s, the contribution of the three HDI components remains identical to that of the early 1980s.

## **Estimating the HDI between 1996 and 1998**

How has the HDI evolved since 1995? What has been the impact of GDP growth on the HDI between 1996 and 1998?

Graph 2.10 shows economic growth between 1990 and 1997, plus a growth forecast for 1998. The rate of growth in GDP by volume was 6.6% in 1996, and 14.1% in 1997 (see statistical appendix).

These data reflect corrected estimates both for GDP volume at current prices and annual population projections based on the figures of the 1997 census.

As mentioned above, the recent data from the 1997 census have led to corrections in the estimates of per capita GDP. Table 2.5 shows the difference in the estimates between the Statistical Yearbooks of 1996 and 1997. The adjustment in the data amount to about 12% and 21%, in 1995 and 1997 respectively.

Apart from the data on per capita GDP, the Annual Yearbooks and the figures from IDS97 allow us to estimate the basic data needed to calculate the other two components of the HDI. But it should be noted that the data used to calculate the life expectancy and educational indices are not immediately comparable with the data used in the 1998 GHDR (INE, 1997, 1998a, 1998b, 1998c).

Table 2.6 presents a preliminary estimate of the evolution of the Mozambican HDI over the past three years. We say preliminary, because the data used could be modified when the definitive results of the 1997 census become available.

Table 1.2 showed that the level of human development remained constant from 1994 to 1995. However, if the estimates presented in Table 2.6 are confirmed, it may be concluded that the HDI has increased at an annual average rate of 12% between 1995 and 1997.

Even if part of this growth may be overestimated, because of the difference in the data used, another important part certainly results from the positive impact of the economic growth in 1996 and 1997. Thus, the increase in the HDI from 0.281 in 1995 to 0.357 in 1998, should in large measure reflect reality.

This being the case, Graph 2.11 shows the changes in the contribution of the three HDI variables between 1990 and 1995, and indicates the percentage values referring to life expectancy and GDP between 1995 and 1998.

A trend for a growing contribution by the GDP is notable, even though in 1997 this remained below 20% of the total.

# PART 2

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## FROM NATIONAL INSECURITY TO HUMAN SECURITY

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Part 2 of this report intends to locate the portrait of the human development situation presented in Part I within a broader socio-economic context. What context is this? In a summary form, it can be described as a context of transition.

One may ask: what transition? To judge from the evidence at hand, everything indicates that this is a transition from national insecurity to human security.

The main components of this transition are presented in the analytical framework of graph 3.1. First, it is considered that the transition to human security requires social peace at all levels of society: national, community and individual. Only real social peace will be able to ensure that citizens are freed from the fear of war and of situations of political injustice.

Secondly, the consolidation and durability of social peace depends on the sustainability of economic growth, and also, on the way in which this growth promotes human development.

But the context of the social, political and economic transition to human security is very complex. In many cases, its nature and trends are difficult to characterise, and, above all, to quantify. Hence the remaining chapters of the report seek to deepen the debate on important aspects of the current context of human development in Mozambique. That is, the context of transition from national insecurity to human security, as displayed in graph 3.1.

## Chapter 3 – What transition for Mozambique?

### *Human security and human development*

The notion of human security used in this chapter, is inspired in the detailed conceptual framework contained in the 1994 GHDR:

“There have always been two major components of human security: freedom from fear and freedom from want” (HDR, 1994: 24).

While freedom from fear can be achieved through an effective social peace, freedom from want can only be achieved through sustainable human development.

Other authors argue that the redefinition of social security requires horizontal and vertical broadening of the concept. The horizontal broadening “involves establishing an agenda which recognises that security is dependent on such factors as political democracy, human rights, economic and social development and the sustainability of the environment, as well as on military stability” (Solomon and Cilliers, 1996:6).

The vertical expansion of the concept “involves recognising that people should be the primary reference point of security. In this way, it becomes possible to identify threats to human security that emerge at sub-national, national and trans-national level” (Solomon and Cilliers, 1996:6).

But it is important not to confuse human security with human development. As mentioned in Chapter 2, the concept of human development refers to the process of enlarging people’s choices. The concept of human security means the possibility of people making choices in a free and safe manner (HDR, 1994: 23). In other words, the first concept expresses the purpose



or main goal of people's existence, while the second stresses the essential conditions for achieving that purpose.

Clearly there is an intimate relation of dependence between human security and human development. Absence of the former calls into question the ability to implement the latter, since it is virtually impossible for people to expand and realise choices in an environment of war, want, crime, rape, political repression, the absence of free expression, and fear. For this reason, progress in human security is decisive for achieving human development.

This chapter concentrates on the first of the two major components of human security stressed above: freedom from fear.

Although freedom from fear is not enough for there to exist effective human security in a country, it does represent a necessary condition so that freedom from want may take shape through economic security, food security, security in health, and environmental security.

But how can freedom from fear be guaranteed? The following sections show that the fundamental vehicle is what we shall call "social peace", which involves such aspects as: political security, personal security and community security.

## ***Human security and social peace***

In this second half of the 20th century, Mozambique has undergone successive, rapid and profound changes throughout its social fabric. This process can be classified into three main groups of events.

- In the mid-1970s, a decade of armed conflict reached its culmination. This was the national liberation war which began in 1964 and led to Mozambique's independence in 1975. The first Mozambican government established a one party political regime, and centrally planned systems of administrative and political governance, and economic management. But armed conflicts in the country did not end with independence. Already by 1977, foci of armed combat and destabilisation had taken political form, in a guerrilla group later known as Renamo, which only came to be demobilised and/or integrated into the new regular army in 1993-94, after the 1992 signing of a peace agreement in Rome between the government and Renamo.
- In the mid-1980s, there began a decade of transition from a centrally planned national economy to a market economy, liberalised and open to the world economy. The crisis in the Mozambican economy resulting from the destruction of the colonial economic system was not overcome by the attempt at radical economic restructuring, following models of an economy planned centrally by the state. Indeed, the situation worsened with the refusal of the Soviet bloc to grant Mozambique entrance into its area of influence and monetary control, COMECON (Council for Mutual Economic Assistance), thus preventing the country from enjoying the benefits of membership of the organisation.
- Secondly, discussions on membership of the World Bank and the International Monetary fund (IMF) took on substance on the local socio-economic stage, and led to the launching of economic reforms. And thirdly, there was the signing of the Nkomati Accord with neighbouring South Africa. This was the prelude to the search for a negotiated solution to the war in Mozambique, under which the Mozambican government agreed to end its support for the ANC and the South African government agreed to end its support for Renamo. Even though this promise was broken, at least it opened the precedent for dialogue to solve the disputes between the two countries.

- In the mid-1990s, the most recent transition process arose: a transition, on the one hand, from war to peace and national reconciliation, and, on the other, from a regime of a single-party and centralised governance, to one of political pluralism and decentralisation.

This series of successive transitions, over about three decades, has created great fragility in the social fabric of the Mozambican population, and prolonged national insecurity.

National insecurity in Mozambique has had two main characteristics. First, there is insecurity caused by the threat to people's lives at all levels: personal, community and national. Second, there is insecurity caused by the shortages resulting from the profound ruptures in people's patterns of life, in their homes and at their jobs and workplaces.

In this context, what sort of transition does Mozambique need in order to stabilise and progress? Can we state that the absence of war, over the last four years, represents the start of a genuine transition from national insecurity to effective human security?

This chapter explores these questions and discusses the existing conditions for a transition from national insecurity to real human security. Although in the past foreign influences at the level of political stabilisation or destabilisation have been very important, in this first report, the debate is concentrated mainly on national factors.

### **Social peace and political security**

The term "social peace" means not only the absence of war and of armed conflicts, but also the acceptance of differing ideologies and political parties in society, as well as the freedom of opinion and expression.

Social peace in Mozambique is most visibly expressed in the new social and political climate currently experienced. This is enshrined in political institutions such as a multi-party parliament in which the parties represented are Frelimo, Renamo and the Democratic Union (UD).

At a broader level, there is also the space filled by extra-parliamentary movements, by the mass media, non-governmental organisations and international agencies. All these forces transmit their specific ideas in today's political, social and economic space.

Freedom of dialogue and expression makes possible broad participation in the political and administrative process. This climate is indispensable for the establishment of the rule of law, resting on the principle of respect for the individual's right to be and to choose.

The communities are the epicentre of decision-making power as to how to sustain local life, and physical, intellectual and spiritual growth, in the context of strengthening the nation. This was the principle underlying the current process of political and administrative decentralisation, expressed in the law on local authorities and the local elections. Social peace also presupposes the more wide-ranging perception of the concept of human security as defined above.

Thus the stress on state security is gradually shifting outside the military sphere, to development, and particularly to reconstruction, investment in the social sectors, and, as a result, in improving the plight of the immense human capital of 16 million or so Mozambicans.

In other words, the notion of social peace is no longer limited to the defensive idea of territorial security, and now stresses the perspective of sustainable human development.

Social peace also takes into account the philosophy of using human, physical and financial resources that were freed with the end of the armed conflict in Mozambique.

However, there is still a long way to go on the path to consolidate peace in Mozambique. The opening of a broader political space has to be part of dialogue and understanding so that there may be greater receptivity towards new initiatives and ideas in the process of change.

Social peace does not mean the end of conflicts within society, and much less in the model of life of the communities vis-a-vis the modern state.

The plurality that Mozambique accommodates in its territory, expressed in 20 ethnic-linguistic groups and a popular symbolic, political and religious set of ideas, is a complexity that makes the country rich in its diversity. The individuals and communities who make up this complexity are seeking space to participate in the process of change, accommodating themselves in the windows that the modern state offers.

However, the state still has difficulty in establishing the level of acceptance and value for what is local, as well as the point of interaction between itself and the culture expressed through local traditional models, norms and rules, in which mother tongues are the prime vehicle for cultural transmission. Also still noted is the mismatch between two levels or models of life that are produced in parallel in the economic sphere and in the field of ideas, but do not work together for development and the common well-being. These are the models of the communities and those of the modern state.

In the social encounters, or mismatches, the conflict continues, both in political polarisation, and in the dualist perspective of the world, as well as in its positive aspect as vector of change, paving the way for the creation and development of new ideas, thus allowing the growth of societies and their continual restructuring.

### **What are the peace dividends?**

Exhausted by the conflict which destroyed property and sacrificed human lives, both in the countryside and in the cities, the public breathed a sigh of relief when the peace agreement was signed. Peace meant the end of looting, indiscriminate death and destruction. It meant the end of the kidnapping or pressganging of sons and daughters for military activities or for logistical support for those activities.

Thus the end of three decades of conflict freed resources for development, in terms of both human and of financial capital. The armed conflict in Mozambique drained resources not only away from the state, but above all from the communities which contributed, willingly or unwillingly, to the conflict.

The relief felt by the state from the burden of funding the war is highlighted by available statistics. Graph 3.2 and Table 3.1 show interesting aspects of this.

First, in the 1985-1997 period, 1985 was the year with the highest proportion of defence expenditure. Secondly, since 1985, this proportion has gradually declined. In 1996 and 1997 defence spending as a percentage of total was about half the level of 1985. Third, between 1985 and 1990 the percentage expenditure on education and health was significantly less than defence spending. But in 1992, for the first time, the expenditure on education and health (21.6%) was higher than that on defence (18.5%). This “diversion” of financial resources from defence to the social sectors has been maintained in the succeeding years, and has in fact increased.

There are certainly many other positive dividends resulting from the end of the war, but they are difficult to quantify. Furthermore, the conventional concept of war errs by always analysing defence expenditure from the viewpoint of the state. This concept does not consider that in an armed conflict of a civil nature, the communities make their contribution to both sides, regardless of whether they agree with the goals or not (Chachiua, awaiting publication).

## **The transition from war to peace**

The transition that began in the mid-1980s was consolidated with the end of the armed conflict in 1992, as the culmination of a wide-ranging political dialogue, in which various social sectors took part.

The transition has now reached a stage which can lead to the reconciliation of the entire country in the framework of institutions, organisations, persons and, above all, ideas.

Where previously there was latent or open conflict, today the postulates for reconciliation can be glimpsed.

The pluralism of the 1990 Constitution opened up space for new ideas, through free elections which resulted in the current multi-party parliament.

The new Constitution recognised the right to life (by abolishing the death penalty); the plurality of ideas (by adopting a multi-party system); the separation of powers (between the Executive, the Legislative and the Judiciary); and freedom of the press.

In the politico-administrative field, decentralisation has been the main option for forging participatory development, even though rural communities were the major forces excluded from the first phase. The opening of the market to free initiative is establishing the groundwork for the emergence of a national business class.

In the cultural field, the acceptance of local African values, the recognition and valuing of mother tongues, of the bases of Mozambican identity, of traditional medicine, of community modes of life, are integral parts of reconciliation.

The emergence throughout the country of “Associations of Friends and Natives” of towns, cities, districts or areas covering provinces or regions is an indication of the search for valuing the Mozambican personality, which is undertaken in communion with the native land and with the ancestors. These civic associations may come to channel resources and energies that were previously dispersed or misguided. The national territory will then be more than the sum of the parts, spiritually recognised as the motherland.

The appearance of these civic movements has both positive and negative features. The positive feature of these movements is that they channel collective sentiments for stimulating business initiatives or demanding public positions in specific areas, thus contributing towards advancing knowledge of and giving value to cultural factors, and empowering local potential, filling spaces where the state has difficulty in acting.

On the other hand, the negative feature of these movements is the risk that they could be confined exclusively to a political, economic and administrative elite. This could be reflected in the search for a monopoly of power, influence peddling, and non-transparent methods of accumulation, as well as acting as an instrument to block actions of the administration at local level. The challenge is for the judicial institutions to pay attention to how these initiatives evolve in order to pre-empt any negative trends and to impose the rule of law in the event that the negative side of this type of association gains the upper hand.

The future of an effective political transition depends on the success of the economic reforms in the country and on the impact of the congregation of interests and ideas, beyond the motivation of those responsible for leading the process.

The incongruous nature of the reforms is shown, on the one hand, by the opening up of potential to individuals, and on the other by limited participation and by a hierarchy of social groups with differing levels of wealth. The participation of individuals is by its nature hierarchical since the economic cake is limited in size and does not allow everyone to

accumulate. These are the constraints which make reconciliation within the space of the modern state difficult, in the process of political reform.

The consolidation of social peace makes it necessary to envisage the meeting point between the modern state and the forms of organisation and the exercise of power in the communities which comprise it, and with the way of life of the individuals and social groups who make up these same communities.

And in this overall process of bringing together two socio-cultural universes and two paradigms of understanding the world, the need for members of the elite of the modern state to find their true personality, linking, at last, the individual private behaviour to the rhetoric of public speech, is becoming more urgent.

## ***Reconciliation and Mozambican social capital***

The ability of Mozambicans to forge reconciliation after a fratricidal conflict which is estimated to have cost over a million lives could become a major contribution from Mozambique to all of humanity.

The General Peace Agreement had a markedly symbolic value because it was in the communities, rather than in the understandings between politicians, that the true reconciliation occurred. It is this capacity for understanding at grassroots level that must be examined in order to comprehend the enormous social capital which is the culture of reconciliation of Mozambicans.<sup>1</sup>

Living together is important in a society where the concept of “being” includes the dead, the living, and those yet to be born, and constitutes the basis of human existence. Broadly speaking, “to reconcile”, rather than the traditional capacity to live together after a conflict, means forgetting the past, accepting differences of belief and values, of political ideas and of economic and administrative laws, opening and protecting the space so that dialogue may take place and consensus may be the basis of governance.

The concept of “reconciliation” presupposes a prior situation of conflict. This being the case, a summary description of the realities on which conflicts in Mozambique rested, and which today are gradually disappearing, is an imperative.

Domestically, the most important realities underlying the conflict are,

- in the socio-political field: a monolithic approach to ideas, and a monopoly on channels to transmit them;
- in the socio-economic field: a centralised and centrally controlled planning (of production and distribution);
- in the socio-cultural field: the denial of the content of the socio-cultural universe under which the majority of the population take cover.

The conflict also rested on the lack of consensus on the development path to be followed, and on the methods of exclusion that the chosen paths implied for the individuals and ideas which were against the choices. It is not our task here to consider the importance or to debate the merit of the strategic options chosen, since it would not be possible to do that without going into the debate on the content or validity of these choices.

In the space opened for dialogue, the vision presented on reconciliation is based on:

- Outlining the traditional African ways of conflict resolution, by drawing from the knowledge and aspirations of individuals, social groups and communities. These are widely

known processes which are part of the day-to-day life of the majority. But reconciliation or its premisses can also be highlighted so that the process can consolidate itself naturally.

- Analysing the responses of the modern state to the challenges in the rural and the urban worlds, in order to manage political and administrative spaces in a more inclusive and conciliatory way, and to promote participatory development, thus meeting the aspirations of many people in this period of transition.

### **Conflict, justice and reconciliation in African tradition**

In the African tradition of Mozambique, communities resort to reconciliation mechanisms to restore social order whenever this is disrupted as a result of conflicts between individuals, social groups or communities.

These mechanisms differ from region to region, between rural and urban communities, between coastal and interior ones, between matrilineal and patrilineal societies, and within different symbolic, political and religious sets of ideas.

But they have a common denominator; they are mechanisms that rest on the reality of a society where there is a great interdependence between individuals and social groups, and where solidarity is a reality.

Despite the changes to which it has been subjected as a result of the dynamics of cultural interactions with neighbours, trading and from marriage, from the cultural loss due to colonial impositions, the denial of its political ideas, and from the invasion of media such as radio and television, interdependence within the family unit still exists, as it does between local or neighbouring collectives and communities. In these collectives there are traditional principles of mutual aid and reciprocity.

The perception of the conflict from the point of view of local communities, normally concerns more or less serious quarrels, of a personal nature, between groups or communities, reflecting new or old disputes, unfinished discussions, domestic thefts, adultery, suspicions of witchcraft, and deaths.

In the traditional conception, conflict also appears when a taboo that ought to be respected, according to local social norms, is not respected. It should be noted, for instance, that the explanation for ailments such as hernia and tuberculosis is linked to the perception that some taboo has not been respected. The treatment must therefore cover the closest collective (family or community), even though it is known that the individual affected should be treated in the health care institutions of the modern state.

Although the conflict may be personal, from the community point of view it always affects the collective, since the collective goes off balance when a conflict is present. Thus the conflict always implies a relationship of action and reaction between two or more persons, social groups or communities.

Conflict at local level is often resolved in public. In the first instance, the solution of the problem is entrusted to the parties involved. The “wise” ones, within or outside the family, appear as mediators in the most difficult issues, as well as in the most complicated cases. These are not necessarily the elders, regarded as supreme judges, but community figures, such as the most educated or the most experienced.

The laws of the modern state are generally known and respected by individuals in the communities. This knowledge is the result of the search for “information” in order to be informed as to what is going on around them.

The laws of the state are resorted to in the event of serious conflict, taking the private or “domestic” matter to the courts. But when court verdicts do not lead to the restoration of social peace at local level, traditional mechanisms come into play to restore social order, rather than merely deal with it as an isolated case. This derives from the fact that, once activated, the conflict unleashes a process which goes beyond the individuals involved, and generally expands to include the family, social group or community.

The extended community referred to here is that group of neighbours who possess a relationship of solid links, within or outside the same ethnic background. The case of the “agreement” on jests between the Wamakonde and the Wayao of northern Mozambique is a case in point. It is a relationship traditionally referred to as *ovilo*, which allows certain liberties and flirtation between the two ethnic groups. It also implies that there is a principle of mutual aid, mainly on the occasion of funerals.

To restore peace in the community, the solution must also be all-encompassing. It is accepted that the traditional mechanisms are often strict, as is every education process, even in a symbolic fashion. An example of this is the occurrence, in urban areas, of the “eye for an eye” kind of justice, which is usually explained as resulting from the failures of formal state justice.

These mechanisms can be put into operation at the same time as the formal justice or after it, especially in the case of prolonged absence when a convicted individual is serving time in prison.

Traditional mechanisms operate according to a system of procedures that include meetings and discussions with the traditional elite, dialogue between intermediaries nominated by the offended parties, and culminate with the penalties determined and possible compensation to be paid, according to local custom. Some collective acts against the offender can form part of the punishment. This is the case of the songs of the Vacopi ethnic group, from Inhambane and Gaza provinces, where the collective sings about the evil committed so that the offender feels the weight of the collective sanction, and suffers a “heavy heart” because of this act.

Reconciliation is thus an intrinsic part of conflict resolution in the African socio-cultural universe. It is not a question of restoring an equality which does not even exist in the reigning social order, but of following the principle that one cannot leave the fire alight - “*kutimela makala*”, say the Vacopi - and also of putting out the fire and burying the ashes, symbolising the return to normality.

For the most serious offenses, even compensation might not overcome the problem. Two practices that have, over time, traditionally helped to put a seal on reconciliation among Mozambican communities have been:

- Matrimonial alliances - a strategy also used for traditional and modern political advantage. In marriage, two groups, rather than just the couple, enter into a long-lasting relationship and share something in common.
- Agreements on exchanges of produce - a practice still in fashion in rural areas and on the periphery of towns and cities. An agreement on the exchange of produce seals the principle that each side will have a share in what the other has produced, and this basis of solidarity is important in predominantly rural communities. Agreements on exchanging produce make links closer.

When the conflict is aggravated by a blood debt, essentially an offense that involved loss of life, special purification rituals are needed. These rituals took place when the demobilised soldiers began to come home at the end of the armed conflict. In these cases, it is purification that precedes *de facto* reconciliation and puts a final end to the conflict. Both in crimes

which are regarded as public in nature, such as wars, and in crimes committed in the community, the ritual has three phases of reconciliation.

First comes the reconciliation with oneself, in which purification is necessary to cleanse one of the evil. This is a private ceremony which takes place in the presence of a spirit medium who is usually a traditional healer.

Second is the reconciliation with the collective, through the ancestors. A dialogue with the ancestors takes place through a spirit medium, to thank them for the protection provided, which enabled the individual to come out of the conflict alive. The same occasion lets everyone, the dead and the living, know that the individual is well, in the broad or symbolic sense. Thirdly, there is reconciliation with those who were injured or killed, through their relatives, where the victim is invoked by the officiant with a request for forgiveness. This final part of the ritual may imply a fine paid in money and the sacrifice of an animal. This is the moment of reconciliation with the victim to erase the stains of blood from the conflict. The moment of conflict-resolution normally culminates in a celebration in the community.

This traditional conflict resolution process through dialogue, sanctions, purification rituals, and celebration is a model that is almost ideal for dealing with conflict at community level. It is a functional series of principles for solving problems for the group.

This model of reconciliation between the individual and the collective and between two collectives is the usual practice in the post-conflict period, and it is responsible for the conciliatory behaviour in those spaces where, for instance, one no longer distinguishes between people who fought on different sides in the armed conflict that ended in 1992. There, all are peasants, local producers, members of communities. But in the higher levels of political life, usually in the urban context, reconciliation in its true sense is yet to happen.

### **Reconciliation and the modern state: a complement or a hindrance?**

Reconciliation in the African tradition in Mozambique is a phenomenon that the modern state has difficulty in acknowledging, because of its nature and its structure. This happens despite the state being the institution that sits at the apex of society. The state covers all other institutions in a given territory which houses a people with a variety of beliefs, and uses the political sphere of power to impose social order for the common good.

An offending act practised there is seen as a debt that has to be paid to society, and not to a specific community where the offended and the offender have known faces and names.

The state uses prisons rather than principles of reconciliation between individuals and groups as form of punishment for crimes.

Thus reconciliation between collectives (communities and social groups) and individuals is not viewed in a specific and localised environment in the legal framework when the state imposes penalties or sanctions for the offending act on the individual and/or on public or private institutions, or on the state itself.

The notion of reconciliation in word and deed has to be taken into account in the creation, consolidation and sustenance, over the long term, of the foundations for a new practice of governance in Mozambique.

With the introduction of political and administrative reforms, spaces have been opened for social expression, freedom of association and worship, and the affirmation of the personality of the local citizen; actions and decisions are decentralised; the basis of inclusion is expanded to accommodate new persons and new ideas in the government and administrative machinery, and in the country's political and social life.



But reconciliation in the modern state has been difficult to attain, because it is not a prerequisite either for the structuring and strengthening of important institutions such as courts, for the existence of civil, religious, political or socio-professional associations, or for the accumulation of profit, capital and other assets.

However, the political and administrative reforms seem to be opening windows for the presentation of ideas and participation of the people who advocate them in public, so that everyone may take part in the process of governance for the well-being of society and development.

But there are no appropriate prerequisites and mechanisms for reconciliation in this sphere. The very process of democratic reforms has sometimes been out of line with reconciliation. Spaces for participation are opened, but new social exclusions are created, where the affluent exclude the vulnerable and the poor.

It thus becomes imperative to nurture the culture of reconciliation and peace in the modern state and to transform it into a political culture, a way of life, so that dialogue and the acceptance of ideas can take place unhindered in both the public and private spheres.

### **Mismatch and the prospects for a match**

Under colonial rule there was always conflict between local communities and the state. The conflict was triggered by the nature of the occupation which was based on land expropriation and exclusion of natives from social and political life, by denying them civil rights.

After independence, political choices shaped new exclusions and questionable development models led to conflicts of a different type which culminated in the war, with internal and external components to it. The conflict existed on political, economic, cultural and social levels.

The foundations for consolidating Mozambican social peace rest on reconciliation where it becomes necessary,

- to open spaces and latitudes to build individual and collective wealth; and
- to develop symbolic social capital more openly.

Thus, the issue of closer interaction between two worlds in the search for full reconciliation should not put emphasis on possible resistance in the countryside, or repression by the state, but should focus on studying, presenting and developing the bases for the match between the tradition-based social and productive capital at local level, and the productive system controlled by the modern state. This option will allow the dissemination of ideas and sharing of resources which are today used discretely and exclusively for the benefit of individuals, family or group, within the broader society.

In the current mismatch which makes reconciliation difficult, the main factors that play a role include:

- The incongruous nature of the judicial system, which fails to match the different perceptions of the relationship between a sanction and the offending act. The system is yet to build a bridge between two worlds that are sometimes antagonistic. This often makes the practice of justice a symbolic representation for the state, later revised and reshaped in order to make it functional and accepted at community level.
- The communities' difficulty in understanding and accessing the health, education and the public administration services, forcing them to search for alternative functional methods and institutions to serve their interest.

One then witnesses either the total absence of the state from community life, or a superficial presence, superimposed upon the prominent traditional structures. Where the state exists, it is not properly understood. These are two worlds and two paradigms that rarely meet, and when they do make contact, it is almost always tangential and circumstantial.

Principles for a meeting point between the two worlds could be:

- To acknowledge the potential benefits and accept the need to incorporate the concerns of the communities into the modern state and vice versa.
- To see the intricate links between the individual and the collective and devise ways to reconcile the members of the communities with the members of the modern state. These are essentially the same people and social groups living supposedly parallel existences.
- To accept the ongoing reforms, even though they may be dictated from outside, but adapt them, in a creative and functional manner, so that they serve the interests of society as a whole.

The mismatch between the structuring of the modern state and the rules of tradition goes beyond institutional barriers and becomes a latent conflict in the subconscious of the individual. It is a struggle between two worlds, and of the individual Mozambican, not yet reconciled. A synthesis of a possible solution would include: (i) a legal system accepted by all as a true repository of social order; (ii) an education system aimed at offering the basis for better integration into local life, society and the world as shaped by the modern state; and (iii) a health system with resources to cure the physical and psychological needs of the individual and the collective being.

It is thus a case of matching the modern state and the communities that comprise it, in order to draw from the strength of the social capital accumulated in the communities which today structures the life of a functional community-based and tradition-driven system.

The world of the ordinary citizen co-exists with that of the modern state in the same territory and, at least from a legal standpoint, it constitutes its foundation. The communities mentioned above are mainly the rural or peri-urban groups who play a role in bringing rural culture into the cities and towns.

Another important factor is the mismatch between two worlds that reflect different socio-cultural universes and more than one paradigm. In this state of affairs, the knowledge of how the two worlds coexist and function in the same territory under the umbrella of the modern state is a pressing necessity. Research, debate and open discussion to rethink the nature of the state in the third millennium are necessary and urgent in order to have a deeper understanding of social dynamics.

Another pressing necessity which should also be studied is how the shift in the mind set towards a community-focussed development and a new way of analysing social concepts can be encouraged.

The main challenge is to find a common link without interfering in the dynamics of social capital due to its fragile nature and its tendency and ability to withdraw and hibernate until it becomes almost invisible when it feels encircled or threatened. This is a capacity developed over time for its very survival. It is this capital which operates at community level in the following contexts:

- In the economic arena - to produce and market following traditional norms for the circulation of goods. This include for example, marrying another wife using livestock and other goods that are useful for the individual and collective life in patrilineal societies, in order to legitimise the right to children born out of the marriage;

- In the symbolic, religious and administrative spheres - through land management methods, the rituals followed and the thoughts or ideas that structure these acts. This mismatch is evident in the countryside and the urban centres, and within the communities, towns and urban spaces. It rests on the inability of the elite of the modern state to adjust its private habits to its public image. This is proven by the existence of behaviour which, from a functional point of view, is justified in a rural economy, but not where one intends to follow the laws of the market. This is the case with polygamy in urban centres, and the kinship-based social welfare networks, which meet the needs that the modern state is unable to satisfy.

The challenge will always be how to integrate the two spheres. One possible response is to do away with prejudices of the modern state and tap into the huge social capital present in private life. This is theoretically possible since today we are living far from the inquisitive gazes of those who shaped their vision of the world through the lenses of the colonial framework.

The 21st century should bring into the development agenda the debate on the role of the modern state in the reality of Mozambican life.

## ***Social peace, democratisation and decentralisation***

The state inherited is at once external, centralised and fragile. External in that the process of forming the indigenous modern state did not cover the entire territory of Mozambique. Centralised because its commands emanated essentially from one central point, first in the colonial metropolis, and later in the capital of the “overseas province”, as Lisbon renamed its colony. Fragile because, despite its strong statements, its real presence never extended over the entire country. Urban autonomy has always been limited since the mayors were all appointed by the central government, a practice that continued after independence.

The Portuguese municipal administration comprised Town Halls and Local Councils consisting essentially of European residents of the urbanised areas. The suburban zones, reserved for the native population, were headed by appointed administrators who discharged their duties on the basis of the civilian administration model in rural areas.

The Town Halls concerned themselves mainly with such urban matters as water and electricity supplies, sanitation, waste collection, town planning and later on, the development of master plans, and the management of markets. Their most important source of income was the granting of land titles for housing and industrial activities in the area that fell under the jurisdiction of cities.

With independence, two movements emerged. One was a centralising movement, driven by conceptual motives which included the need to preserve a unitary state. This movement led to the abolition of town hall autonomy, due to difficulties linked to budgetary and financial management and to skills shortages caused by the exodus of the settler population. Another reason was the shift to more participatory structures through the creation of organisational bodies at neighbourhood and block level.

These two movements did not function in a coordinated manner. The political and organisational discourse gravitated towards giving responsibilities to local communities through local structures and participation in the management of state assets. In reality, the local bodies ended up with a mere consultative role, without any power to make or implement decisions. They were restricted to presenting problems for the consideration of central bodies.

Therefore, these bodies exhausted themselves in successive meetings to identify problems and enunciate demands, without creating any corresponding capacity to solve them. The fact that their creation was to a great extent induced by Frelimo prevented them from evolving into

acceptance as genuine community bodies, as they continued to be regarded as the ruling party's structures.

The Assemblies then created, in reality became sounding boards where community views on governance were expressed and deep-seated feelings externalised to the administrative machinery. To a certain extent this helped to moderate the excesses of the ruling class. On the positive side, the period also highlighted a capacity for mobilisation and a civic sense of participation that constitute a formidable reservoir of experience, once the mistakes that led to the diversions are corrected.

Economic liberalisation preceded political and administrative liberalisation in Mozambique. On the one hand, this happened because of the pressing nature of economic matters, and, on the other, it was perhaps out of fears that the country could disintegrate. These fears were reflected in the ambiguities of the new Constitution which enshrined the existence of hybrid structures, i.e. bodies that were of the state, but elected.

The movement for political and administrative decentralisation began to emerge in 1988 but gathered momentum during the 1990 constitutional debate.

On the eve of the multiparty parliamentary elections that sealed the peace process in 1994, a Law on Municipalities, which provided the basis for municipalisation in both urban and rural areas was passed. These would form municipalities with an elected mayor and an elected assembly. This law never took effect partly thanks to the primacy given to the presidential and parliamentary elections in the context of the peace process.

The constitutional amendment of 1997 clearly enshrined the existence of local power different from state power. This conceptual broadening which rested on a clearly enunciated autonomy of local bodies was accompanied by a significant limitation on the geographical coverage of decentralisation. The process was now deliberately urban-centred in character, limited to cities, towns and the small settlements that are the headquarters of administrative posts.

### **Main aspects of the law on local authorities**

The law passed in 1997 stipulates that there are two types of local authorities: municipalities in cities and towns, and settlements (povoações) in the headquarters of administrative posts. The role of the local authorities includes, apart from the conventional ones such as the environment, basic sanitation and the quality of life, public supplies, urbanisation, construction and housing, and the municipal police, a new type of function in social sectors such as health, education, culture, leisure, entertainment and sport.

The perception that local welfare relies on development led to inclusion of economic and social development as one of the main roles of a local authority.

The main local authority bodies are the Mayor, the Municipal Assembly and the Municipal Council. The Mayor is an executive position and he/she is elected by direct suffrage at the same time as the Assembly, which puts him/her on the same footing as the Assembly. One of the corollaries is that the Municipal Council, consisting of councillors responsible for portfolios, is appointed by the Mayor. The only limiting proviso is that half of its members must also be elected councillors, so as to give it democratic legitimacy.

Aspiring councillors have to be nominated by political parties or coalitions, but require the express support of at least 1% of the registered electorate in the respective local authority.

The intervention of civil society led to a significant innovation in the local elections, which was the possibility of independent candidates proposed by the same number of voters (1% of the registered electorate) without requiring support from any political party. This clause

withdrew the monopoly of political party which is enshrined in the Constitution for state bodies.

Local finance is one of the critical points in the current system. The choice of 33 municipalities for the first local elections was made out of political reasons, particularly the pressure from the opposition and the international community. The government had warned that its initial proposal for 23 local authorities already went beyond the limits of financial viability. Although ceilings have been set for expenditure on staff remuneration to avoid excesses and government has made a commitment to maintain the current level of budget allocations to avoid any decline in revenue, the theoretical viability of the new local authorities seems assured for the time being only in major cities, such as Maputo, Beira and Nampula, which have a significant tax base.

### **The foundations of decentralisation**

Decentralisation in Mozambique can be viewed from various angles. From the political point of view it can help consolidate peace through social inclusion. From the point of view of the relations between the administration and the citizenry, it assist the drive for greater transparency and accountability.

These arguments need careful analysis to avoid turning decentralisation into a magic wand that will solve the general problems of the political system. The municipalities do not live in a vacuum: they reflect society's political practices and conceptions.

Many people regard decentralisation as an instrument for improving the management of urban services. It is expected that the legitimacy of the new municipal leaders will allow them to be rigorous in the management of public funds, less susceptible to corruption, and more competent.

The quid pro quo for greater participation through decentralisation is heavier responsibilities placed on the shoulders of citizens - which also presupposes greater awareness that services will improve through their contributions, in ideas, work or taxes.

This is still one of the unknown variables since there is no tradition of paying municipal taxes, in part thanks to the paternalistic attitude of the first years of independence, which created the culture that public services were a right and was extended into the subsequent phase in the form dependence on aid. The success of decentralisation depends on triggering the generation of more resources and the mobilisation of technical staff and in finding reservoirs of experience not yet sufficiently exploited.

In Europe, decentralisation evolved out of communities of neighbours who came together spontaneously to solve their problems.

In Mozambique, regardless of its participatory virtues, decentralisation is still being induced from above, as a corollary of the implantation of the modern state. This may in part deprive it of the ability to seek in tradition the foundations for its insertion and indigenisation. This is the greatest challenge.

If, on the one hand, decentralisation can be regarded as a process that is to some extent external, is it legitimate to ignore participatory tradition of the Mozambicans? The survival of the social structures during periods of acute crisis points to the richness of participatory forms that are present in African society, and in the Mozambican society in particular.

Through informal associations, groups of residents, charitable groups caring for the needy, families in difficulty, the old and the sick, mutual aid associations, councils of elders - all solve social and family disputes, regardless of whether they are shaped as a formal traditional

authority. This is how the Mozambican society has faced and solved its own management problems.

Sustainable decentralisation should be capable of drawing from this experience and the immense traditional social capital, methodologies, ideas and functional structures that will allow it to advance the public good.

Simplicity of procedures ensures that the municipality is in permanent contact with all social strata and knows their potential for contributing to the solution of urban problems. The provision of urban services, such as waste collection, road maintenance and sanitation can be undertaken through labour intensive methods based on community participation, with due rewards and without costly technology.

One answer to the resource crisis lies in acknowledging and formalising the informal. Decentralisation will not solve the problem of scarce resources, but it makes it possible to seek alternative solutions. In adopting less formal ways of operating such as the use of community methods in the provision of urban services, the formalisation of what is regarded as informal is also a resource that will help to discharge the classical functions of a municipality. This could perhaps be one of the greatest contribution of Mozambique's decentralisation process to meet one of major challenges facing Africa, i.e. the reconciliation between the modern state and the real social organisation, between society and the citizen.

### **Beyond municipalisation**

Local elections are a supplementary step in the pacification of the country insofar as they broaden the participation of the various political forces. This is all the more important given the fact that the present system is essentially bipolar, with two large parties occupying 98% of the seats in parliament, while other political forces representing 13% of the electorate have no representation at all in public institution. The interests of stability seems to indicate that it would be useful for the political system to be more inclusive, accommodating a wider range of interests in the management of the public good.

## **Chapter 4 – Economic Transition: what implications for human development?**

### ***Transition: from the economy of want to economic security***

This chapter deals with the second of the two major components of human security identified at the start of Part 2 of this report: freedom from fear and freedom from want.

Freedom from personal, political and community insecurity can only be lasting when it is supported by freedom from want. But while the former is expressed through social peace, as discussed in Chapter 3, freedom from want depends on a close and sustainable link between economic growth and human development.

In this context, the determining factor for the prosperity and human development of the Mozambican population is not so much the existence of vast and rich natural resources in their country. What is determinant and decisive is how such resources expand the well-being of individuals.

Over the last four or five years, Mozambique has not only achieved a climate of peace and political stability, but has also reversed the trend and direction of its economy. The Gross Domestic Product (GDP) grew in real terms by 4.4% in 1994, compared with the previous year. Graph 4.1 shows economic growth between 1980 and 1998. After a slowdown in 1995, when the GDP growth rate was just 1.3%, growth increased to 6.6% in 1996, and to 14.1% in 1997 (INE, 1998b; see statistical appendix).

This recent economic recovery has led to hope among many business people and economic analysts, but has caused a certain apprehension and scepticism among many others.

The opportunities for local and foreign businesses are not the same. This is also true for the difficulties directly or indirectly linked to the productive process. But before speculating as to whether the recent economic recovery will be sustainable, it is important to recognise that there is no rapid and sustainable human development without positive and sustainable economic growth.

After the deep economic crisis that Mozambique went through in the past two decades, its economy will still have to undergo a test of confidence in terms of dynamism, resilience, efficiency and sustainability.

Mozambique cannot be expected to ensure satisfactory and sustainable human development based on feeble and slow economic growth. The recovery, vitality and dynamism of the current Mozambican economy are promising, but so far insufficient to translate into a reduction in poverty, protection of the environment, and real and sustainable human development.

Thus there are many questions, and so far few answers, few reliable certainties about the behaviour of, and the prospects for, the Mozambican economy.

To what extent will the economic growth currently noted in Mozambique contribute towards the human development of its own population? We are witnessing an economic growth of what, and for whom? What are the benefits and the costs of the current growth in terms of human development? Is economic recovery and revival accompanied by a reduction or an increase in poverty?

These and many other questions are related to, and indeed motivated by, the fundamental question chosen for this report on the relationship between economic growth and the human development of Mozambicans.

But it would be illusory to attempt an exhaustive discussion of the questions already posed, and the countless complex problems related to them. Certainly on future occasions it will be possible, for instance, to deepen the debate on poverty in Mozambique on the basis of the wealth of data recently made public by the INE (1997) and by the Planning and Finance Ministry (1998b).

For this first report, the most appropriate alternative is to discuss, in synthesis, the main characteristics and causes of the crisis which, in the 1980s and 1990s, made Mozambique figure in the statistics as one of the poorest countries in the world. This will be undertaken in the first sections of this chapter.

Chapter 4 then describes the efforts to re-establish economic growth in Mozambique between 1985 and 1997. Apart from the efforts to recover economic efficiency and overcome macro-economic imbalances, some initiatives were taken in order to strengthen the linkages between economic growth and human development. For example, at the start of the 1990s, the Economic Recovery Programme (PRE) was transformed into an Economic and Social Recovery Programme (PRES), with the aim of strengthening the links between economic reforms and their social implications.

Chapter 4 does not seek to describe the general situation of the national economy in an exhaustive fashion. More importantly, this report merely attempts to situate and promote the debate around a pertinent and urgent question in the current development of Mozambique. To this end, Chapter 4 only discusses some general aspects of correcting the macro-economic imbalances, namely in the manufacturing sector, in the structure of the trade balance, in foreign exchange management and in prices.

On the other hand, chapter 4 has chosen an important product in the Mozambican economy in order to analyse in a more specific way the nature, characteristics and complexity of the links between growth and development in Mozambique. This is the case of cashew production, a case which in recent years has given rise to fascinating controversies which illustrate the challenges faced in Mozambique's economic growth and development.

Cashew is not a unique case, but it is perhaps one of the most fascinating in the current Mozambican economy because it touches upon the main links between growth and development. The cashew question relates to agriculture, to industry, to domestic trade and to foreign trade. Secondly, the development of the cashew industry is also related to technological choices, to the influence of pricing policies on production and marketing, as well as to the development of infrastructure and human resources. Thirdly, cashew also relates to basic questions of poverty alleviation and ways to ensure freedom from want for the Mozambican population.

Thus, the cashew case is used in this report, not as something unique, but as a typical and relevant case which may be used to stimulate debate on similar cases in other sectors. Above all, this case seeks to illustrate, on the one hand, the importance of links between real economic growth and sustainable human development, and, on the other, the more general link between the two fundamental dimensions of human security:

- economic security,
- food security.



## **Why one of the poorest countries on earth?**

The behaviour of the Mozambican economy over the past two decades has been characterised by a succession of deep and radical crises, which, in the last ten years, led international organisations such as the World Bank and the United Nations to regard Mozambique as one of the poorest countries in the world.

Among other factors, this image derived from the extremely low per capita GDP in Mozambique in the mid-1980s. The official data on GDP and on population, published by the DNE (1992, 1995) and by the INE (1998a, 1998b) in their Statistical Yearbooks, allow us to note the evolution of per capita GDP between 1985 and 1997 (Graph 4.2).

It is estimated that in 1985 per capita GDP was about US\$ 28, and about US\$ 30 in 1986. This was about 4.4% of the average figure in sub-Saharan Africa, and 25% of the per capita GDP of Chad, the penultimate country in the classification made at the time by the World Bank.

It should be noted, however, that per capita consumption in the 1985-86 period is estimated at about US\$ 190 per year, or six times more than the 1985 level of per capita national income. Why this difference? It is explained by the role of foreign aid in national consumption.

In 1987, there was a sharp recovery of per capita GDP to US\$ 96. After a fall in the following year, per capita GDP rose to US\$ 102 in 1990, but fell back again in 1992 to US\$ 87. This was the worst year in the 1990s.

Finally, per capita GDP has risen in a speedier fashion from about US\$ 95 in 1994 to US\$ 110 in 1997.

Following macro-economic stabilisation, the continuation of the war, and the concomitant fall in national income, per capita consumption also dropped to about US\$ 84 in 1994. Which means that in the process of stabilisation, per capita private consumption came more into line with national income.

## **Characteristics and causes of the crisis**

In the decade between 1970 and 1980/81, the Mozambican economy regressed in all aspects (see Table 4.1).

The effects of the crisis in the international markets (particularly the effects of the increase in the international price of oil and of manufactured goods in 1974), the decolonisation crisis (1974-1977), and the effect of the economic sanctions against what was then Southern Rhodesia (1976-1980) have been the main factors generally used to explain this regression in economic development.<sup>1</sup>

However, it is not only the impact of particular exogenous factors that count towards the total effect on the economic development and human progress of a country, but also the response by governments to these external shocks.

These responses depend largely on the conditions of the economy when the shocks occur, including the nature of the economic and political system.

From 1980/81 the tendency of the economy to decline worsened, as can be seen from Table 4.2.

The war was undeniably one of the important factors in the deterioration of the economic and human situation of the country in this period. However, despite the adversity of external factors and of the war, not everything in the development of the Mozambican economy in recent years can be reduced to these events. An important factor was the option for a centrally

planned economy, and economic policy measures that were inappropriate to the economic and social conditions of the country.

For example, although on attaining independence in 1975, Mozambique was suffering the extremely negative effects of the international energy crisis, between 1976 and 1986 there were substantial cumulative gains in the terms of trade.

Mozambique's gains resulted mainly from the evolution of prices for primary agricultural produce and for marine produce, which as a result came to occupy a preponderant position in the country's export earnings as from the early 1980s.

The Mozambican authorities reacted to momentary progress by expanding public investment programmes. But these could not be accompanied by a realistic expansion of maintenance and operating budgets. On the contrary, both the financial effort of the war and that of expanding investment had the effect of reducing the capacity to finance recurrent operational and maintenance costs.

Furthermore, when the additional income deriving from variations in the terms of trade declined, public investment continued to grow. Given that production and national income had contracted, the additional resources needed to finance the expansion of public investment would necessarily have to come from government indebtedness, both to the domestic economy and to the rest of the world.

Thus in the period from 1979 to 1982, Mozambique entered upon a spiral of foreign debt, and the state undertook a series of measures to sustain its public investment and social subsidy programmes, the effect of which was to extract resources from the rest of the economy.

That was the case with the policy of prices set by government in industry and agriculture, which did not cover the costs of production. This pricing policy enabled the state to carry out a programme of supplying essential goods at low prices which artificially reduced the budgetary value of the effective subsidies offered to consumers.

At the start of the 1980s, the deficit on the state budget, mainly generated by the expansion of public investment associated with large-scale projects aimed at the building of a socialist economy, was mostly financed by public debt, domestic and foreign.

The public sector's net domestic debts to the banks rose from practically nothing at the end of the 1970s to about 10% of GDP between 1984 and 1986.

There were two opposing trends in the state's foreign indebtedness. From 1980 to 1982, the net entry of funds mobilised through the state's foreign indebtedness amounted to about 9% of GDP. But, as the creditors grew aware of the inability of the Mozambican economy to repay, and as the international debt crisis bit deep (starting with the Mexican moratorium in April 1982, which was followed by a rationing of credits to developing countries by their international creditors), the entry of new loans to Mozambique fell drastically to 1% of GDP in 1983.

Consequently, when the country came to the stage of honouring its contracts for paying the service on debts contracted in previous years, a net outflow of resources from the country began. In 1984 this outflow amounted to 1.5% of GDP. It declined in the following years because the country began to accumulate arrears in payments. This in turn led to a substantial increase in the debt stock.

As from this period, the country's indebtedness entered the phase of debt crisis, in which it was forced to contract new loans in order to honour old undertakings, or else it was obliged to allow debt to accumulate through added arrears and the recapitalisation of interest. This

generated a spiral of a loss of credibility in terms of credit-worthiness which isolated the country almost completely in the international markets.

This is the context in which one should seek to understand the impact of macro-economic stabilisation on human development and on poverty in Mozambique. The contraction of consumption to bring it more into line with the real capacities of the national economy, whose production and income were declining or growing at a rate inferior to population growth, had to result inevitably in a reduction in well-being, that is, in a deterioration in human development indicators.

Historical factors such as the heritage of Portuguese colonialism, less favourable conditions on international markets, and the politico-military instability in the region and its relationship with the cold war in part explain the failure of the Mozambican economy.

Since the mid-1980s changes have been undertaken in Mozambique's economic and political regime, in order to counter the negative results of past development policies, seeking to stimulate economic growth and the improvement of living conditions. These changes include the democratisation of political institutions and the introduction of a free market economy.

## **Structural adjustment and the re-establishment of economic growth: 1985-1997**

Macro-economic stabilisation seeks to restore the internal and external balance of the economy, bringing private and public sector expenditure into line with national income and sustainable levels of aid and indebtedness. It therefore necessarily has costs in terms of consumption and well-being.

Structural adjustment aims to alter economic incentives to consumers and producers in order to promote efficiency in the economy. In the final analysis, adjustment has positive effects on economic growth, employment, consumption and well-being, in the long term. But must the stabilisation and adjustment measures inevitably have negative effects on social and human development factors in the short term?

The opinion of economists is divided on this. There are at least two main positions. On the one hand, economists such as Kuznets and Kaldos, as well as institutions such as the World Bank and the International Monetary Fund (IMF), believe that in the initial phases of economic growth, deterioration in income distribution is inevitable, because the benefits are only sufficient for the rich (HDR, 1996: 6). On the other hand, authors such as those who have been associated with the GHDRs reject the inevitability of conflict between growth and equity. For example, the 1996 HDR states:

“The traditional view that economic growth in the early stages is inevitably associated with deteriorating income distribution has been proved false... Well-developed human capabilities and well-distributed opportunities can ensure that growth is not lopsided and that its benefits are equitably shared. They can also help in getting the most growth” (HDR, 1996: 6).

This section undertakes a brief analysis of the social impacts (potential and verified) of stabilisation and structural adjustment in Mozambique, as well as a brief survey of the characteristics of the alleviation/mitigation measures introduced to deal with the social costs of these policies.

## Reforms in the productive sector

### *Agriculture and development*

The importance of agriculture is shown, above all, by the fact that it involves 80% of the population. Even though it only contributes about 25-30% of the volume of the GDP, about 70% of aggregate export revenue derives from agricultural produce and renewable natural resources. For at least half the rural population, agriculture is the main source for obtaining the

resources needed to ensure food, health care and education, and is therefore the main means whereby members of rural households participate in the economic and social development of the country.

### *Implications of agricultural policy*

The development of the agricultural sector, particularly the production of family producers, is vital for the food security of the population. Furthermore, the link between industry and agriculture is key for the country's economic growth.

Mozambique inherited from colonialism a situation in which the development of the countryside, in terms of access to basic education and health services, and of infrastructure, was amongst the poorest, even by the standards of sub-Saharan Africa.

The policies followed after independence had a variety of different effects on the countryside. On the one hand, there was an effort to improve access to education and health services which won the recognition of the international community. On the other hand, an economic policy resting on the administration of all markets, and the attempt to impose ways of organising life and production out of line with tradition and existing capacities resulted in breakdown and a regression in the integration of the rural economy into the overall economy.

This situation became worse with the generalised insecurity caused by the war which led to a massive displacement of the rural population, both within the country and over the borders. The economic policy measures introduced under the structural adjustment programme in general had a positive impact on the rural economy, expressed in the gradual liberalisation of markets for produce, and a pricing policy that took the laws of the market into account.

The establishment of peace in 1992, and favourable weather conditions, assisted in normalising social and economic life, bringing new opportunities for rural development. The visible increase in agricultural production in recent years shows that the peasants, albeit in an incipient way, are responding to opportunities where they exist.

With the almost total elimination of the main external factors that were the most evident causes of constraints, the question of making economic policies appropriate to the goal of high rates of economic growth takes on greater relevance. Furthermore, it is important to analyse whether these policies are in line with the goal of an economic growth that promotes human development.

Although it is indisputable that increased competition in the market for agricultural produce, which results largely from the new macro-economic management policy framework, is contributing to stimulating agricultural production, it can also be conjectured that the boom of recent years may be linked to the combined effect of an increase in the area cultivated, caused by the end of insecurity and the return of displaced people to their home areas, plus favourable rainfall.

Analyses of agricultural production show that important constraints persist, which certainly cannot be eliminated or minimised merely by the effect of market forces. Among these, one should stress:

- The existence of important sectors of the rural population who are economically isolated; and
- The paradox of crises caused by increased production of essential products, because of the incapacity of the commercial system to absorb them, and because of the relative segmentation of the regional markets (essentially between the north and the south).

Economic isolation can be defined as a limited economic interaction between households - in terms of sales and purchases of goods and services - and the economy beyond the household and its immediate area. One important motive for economic isolation is unfavourable terms of trade: i.e. the prices that peasants pay for the goods they buy may be excessively high in comparison with the prices they receive for the goods and services they have to sell. This may result in lack of incentives for producing surplus crops for sale, and in adopting the strategy of producing for subsistence.

The current situation, in much of the rural economy, can be explained in these terms. The destruction of infrastructure - roads, bridges, shops etc. - contributed to this by making huge areas of the rural economy inaccessible. This increases the costs of traders, who react by passing on the costs to the producers, by buying their produce at low prices and selling industrial goods to them at high prices.

Apart from the role of infrastructure and transaction costs that affect the supply side of the market, one should also consider to what extent demand contributes to economic isolation. Indeed the size of the market in terms of the number of consumers and their purchasing power, and their geographical dispersion, has important implications for transaction costs and profitability.

The marketing of surplus peasant production is far and away the most important aspect of economic isolation, insofar as it forms the basis for generating resources for the expansion of consumption beyond the limits of household production. Here transaction costs, which include transport, loading, unloading, sale etc., play an important role. The motivation for traders to visit a community to purchase agricultural produce depends on the number and volume of transactions that can potentially be undertaken with this community. Communities with small amounts of surplus may be ignored because of the high costs of transport.

It may thus be concluded that there are several motives that make marketing of agricultural produce difficult under the prevailing conditions in the Mozambican countryside. The small scale of family sector production, the geographical isolation of communities, and the size of rural communities as consumer markets, all contribute to increased transaction costs.

Clearly, looking into the structural nature of poverty and of rural vulnerability, that is, economic isolation, is critical from the point of view of economic and human development. Reducing economic isolation depends on factors such as: reducing transaction costs, reducing the peasants' production costs, increasing access to credit, increasing productivity, and increasing the potential volume of goods to be marketed. Infrastructure development - the roads and bridges - is evidently the first step in this direction. The development of new agricultural technologies, and publicising them through extension services, also helps, because it lowers production costs and increases the volume of production.

### *The government's response*

The government has just launched its National Agricultural Development Programme, PROAGRI, which is defined as a programme for intervening in the sector through public investment, or a programming of public expenditure for the sector. Essentially, the programme seeks to attain the following objectives:

- Poverty alleviation;
- Food security;
- Job creation; and
- Improving the balance of payments.

The programme proposes to facilitate agricultural production and marketing, regarded as the main vector for gradually achieving poverty alleviation and food security. The family sector is mentioned as the main beneficiary of the programme. In centring its activities on the family sector, PROAGRI lays down that all efforts will be made so as to ensure that the private sector enjoys an economic environment necessary for the competitive development of commercial agriculture, stressing the role played by this sector in intensifying production and in stimulating internal and external marketing.

PROAGRI is adopting the strategy advocated in the Agricultural Policy and Implementation Strategies which seeks “to transform subsistence agriculture into an agriculture where production, distribution and processing are increasingly integrated, tending to produce family sector surpluses for the market, and also to develop an efficient and competitive business sector”. In this context, the programme defines three main intervention strategies for the agricultural sector:

- Reform and institutional modernisation, paying particular attention to strengthening the capacity to draw up sectoral policies facilitating the country's agricultural development;
- Strengthening the development capacity of the public services supporting agriculture, livestock, forestry and wild life, with a view to expanding production and increasing agricultural productivity;
- Sustainable management of natural resources: land, forests, wild life and inland waters.

Under the strengthening of public agricultural services, PROAGRI establishes that research services are to seek technological development for family production systems, including support for the seed chain. Integrated research of all agricultural functions will allow the production and adoption of at least one technology per agro-ecological region during the five years of the programme.

There will be a state rural extension network, with limited coverage (about 36 districts), and an expanded extension network in partnership with the private sector, associations and NGOs. Partnerships with the private sector are already a fact as regards the cotton companies with concession areas, where they provide technological support both for cash crops and for food crops. Partnerships with NGOs will be better structured and organised through conventions and agreements to be signed during PROAGRI implementation.

To provide wide-ranging assistance to producers, extension services in agriculture, livestock and forestry will be integrated into a single system, so that the approach may be standardised with the potential for greater benefits. In coordination with other ministries and with INDER, the Ministry of Agriculture and Fisheries will lay the foundations for establishing rural development nuclei, giving priority to the regions with greatest agro-ecological potential.

In the framework of Support for Agricultural Production, activities will be undertaken seeking:

- The provision of high quality seeds and other essential inputs, involving the private sector, associations, extension services and rural traders;
- An early warning system alerting producers to environmental conditions damaging to agricultural activity;
- Prevention and control of pests and diseases;
- Promotion of post-harvest activities, by publicising the technology for conserving produce and for local processing, in coordination with research and extension;
- The promotion of industrial or cash crops, in which the main agent will be the private sector.

One of the government's main activities is the rehabilitation of roads that serve rural communities. The Access Routes Project envisages the maintenance and rehabilitation of secondary and tertiary access roads, using labour intensive methods. In selecting the roads to be rehabilitated, a weighting of 55% is given to current accessibility, population density and characteristics such as their role in links to zones that produce export crops.

It may be concluded that the main actions and measures needed to reduce the economic isolation to which a large number of rural communities are condemned, and thus establish the conditions to increase incomes and lift living standards through agricultural production and marketing, are to some extent covered by the government's policies and programmes. However, some observations would be appropriate as to their effectiveness, given the scale and magnitude of the problems.

Altering the conditions under which peasant production takes place requires strong public intervention, not only in the rehabilitation, construction and maintenance of infrastructure, such as roads and bridges, and in providing extension services, but also in facilitating the restoration of the ruined trading network, and even a sharper intervention in establishing and stabilising prices.

It thus seems appropriate to question the reduction of state intervention, bearing in mind the serious constraints in the countryside where solving or minimising them demands appropriate public sector intervention.

Recognising the existing limitations in terms of the government's institutional capacity to formulate and manage projects and programmes aimed at the countryside, the experience of NGOs should be valued, and their participation in rural development should be promoted in a systematic and institutionalised way. Above all, the NGOs could be of great use in establishing forms of peasant organisation, which is one of the major limitations on peasant access to services supporting production, as well as on strengthening their market position.

Eventually, the state in collaboration with donors might make financial resources available for NGOs to implement rural development projects, awarded through tender.

### **Production and incomes in the manufacturing sector**

Given the fragility of the available statistical data, this analysis is subdivided into two periods, 1990-92 and 1992-96. For these periods, the factors investigated can be analysed with a minimum of consistency (at least in terms of trends).

Continuing the growth trends noted in industry since the start of the PRE, the real gross product of the sector showed a growth (economic recovery) in the order of 16% between the first quarter of 1990 and the last quarter of 1991 (24 months).

1991 was a year of still greater expansion of production, since production in the third quarter was 42% higher than in the first quarter, but dropped slightly in the fourth quarter. This declining trend continued in the following year. In the last quarter of 1992, the real gross production of manufactured goods was only 73% of the level achieved in 1990, and much lower when compared with the last quarters of the two previous years (1990 and 1991). In short, after an initial expansion facilitated by access to funds in foreign currency for the import and replacement of machinery, spare parts and stocks of raw materials, manufacturing production began to weaken as from 1992. In terms of employment, the performance of industry was still more disappointing.

The year 1990 saw the start of a period of decline in employment in manufacturing industry, from which the economy has not yet recovered. Between the first and the last quarter of this year, employment in this branch of the economy fell by 47%. Since that year industry has never suffered such a contraction in the workforce in just 12 months. In the period under consideration (first quarter of 1990 to the last quarter of 1992) the highest point of recovery came in the first quarter of 1991, when the level of employment was 86% when compared with the first quarter of the previous year. In the last quarter of 1992, the sector employed only 77% of the workforce of three years earlier.

These figures bear witness to crucial aspects of structural adjustment. The increase in real production in the first years of the PRE, together with a reduction in employment, suggest that there were substantial gains in productivity in manufacturing industry in this period. One of the characteristics of the previous economic regime was a guarantee of jobs over and above the financial capacity and productive needs of companies.

### *Performance of incomes*

Nominal wages tripled between the first quarter of 1990 and the last quarter of 1992. However, in the last quarter of 1992 the real wages in terms of product (that is, the nominal wage corrected by the factory-gate industrial producer price index) was only 78% of the level reached in the first quarter of 1990. Because this wage is corrected by the producer price, it is a measure of the relative profitability of the company: in selling the product, the company receives more per unit of cost with the same labour. On the other hand, real wages in terms of consumption (that is, the same nominal wage corrected by the consumer price index) rose by 55% between the first quarter of 1990 and the last quarter of 1992, which means that their wages now allowed the workers to buy more basic goods.

The picture that emerges from the analysis of these data is that both the workers who retained their jobs in the manufacturing industry and the employers made gains from adjustment in this period. This is also attested to by the fact that the share of the gross product between labour and capital/employers barely changed at all between 1990 and 1992, despite the relative fluctuation, and if one excludes from the analysis the readjustment downward of labour's share that took place between the first and second quarter of 1990 (followed by a gradual recovery, as production and productivity improved).

It would, however, be a mistake to take these results as a measure of the absolute success of adjustment in industry. What these figures suggest is that during this period there was a kind of collusion between labour/the trade unions and capital/the employers. Labour accepted unemployment, as long as those who remained at their jobs enjoyed better remuneration. The employers accommodated demands for wage rises to help workers maintain or even increase the level of their wage income in terms of real consumption. It would be necessary to consider



the costs of the unemployment that was produced, in terms of well-being, in order to assess the net social effects.

In any case, one could argue that the social cost of this adjustment is excessively high. The social welfare system in Mozambique is not sufficiently developed, and nor does it have the resources, to guarantee assistance to the unemployed. Apart from this, in the absence of an effective system to mitigate the negative effects on those who suffer from this pattern of adjustment, it creates feelings of exclusion, demands and even violence, which could endanger or wipe out any positive achievements. Given the weakness of the government's economic power, and the state of war through which the economy was then living, one of the consequences of increased unemployment in manufacturing industry would have been a rise in the dependency rates in urban families.

This worsened still further the tendency for these rates to grow, which had been caused by the displacement of rural people to the cities, escaping from the war. In reality, it is much more probable that, although the purchasing power of the wages of workers in employment had probably risen, per capita household consumption may have fallen as a result of the increased dependency rates.

This analysis may be the key for understanding the growing militancy of workers around wage claims which marked this period. What was at stake was not real wages, but the per capita consumption in the families of workers who had an ever growing number of dependents. In other words, the correction of aggregate budgetary deficits and of inefficiencies in the economy that stabilisation and structural adjustment measures allow in the short term, have costs which are reflected in the shape of increased unemployment and reduced household consumption. Companies also lose subsidies, and face greater capital costs as a result of the liberalisation of interest rates.

Despite the shortage of comparative data to extend the analysis to subsequent years, there are signs that the militant tendency in the labour force is continuing and that at least this group of Mozambican workers has to some extent managed to protect the real value of its wages, although this does not necessarily mean that per capita consumption has been equally protected.

First, an analysis of the available data, covering the period between the first quarter of 1992 and the first quarter of 1997, shows that real wages in terms of consumption have continued to rise. This is all the more significant if one takes into consideration that this increase in the purchasing power of the average wage occurred even in the years of explosive inflation, 1993 and 1994, and that only in the following years, with the slowdown in the general level of price rises was there also a slight adjustment downward in the level of real consumption wages.

Secondly, as from the second quarter of 1995, the average wage in manufacturing industry, which had been deteriorating in comparison with other sectors of the economy, recovered substantially, restoring the parity which had existed at least four years earlier.

Third, as from the second quarter of 1993, the average wage in manufacturing industry has tended to increase at a higher rate than the prices of some important inputs, notably petroleum products. The same trend can be noted in the general average wage in the economy, though in this latter case, there was a slight correction downward as from late 1995 (although this has also not restored the parity of three years ago).

This all reflects a loss of competitiveness of national industry, as a result of increased costs related to wages. Furthermore, it reflects a displacement in costs that favours the replacement of labour by machinery: theoretically, if the trend is for wages to grow faster than the cost of fuel, it becomes more attractive to replace the use of human force with the force of machines that use this fuel which is becoming relatively cheaper. What could be very serious for the

Mozambican economy is that, if this trend persists for long periods, it could lead to investment patterns that are not appropriate to the relative availability of productive resources in the economy.

If taken as a fundamental indicator in investment decisions now being contemplated by the private sector, re-launching itself after the war, the trend brings the risk that the reconstruction of the economy will be based on distorted technological choices.

### **Correcting the macro-economic imbalances**

The essence of the economic crisis and of the macro-economic imbalances can be summed up as follows: the Mozambican economy was producing less and less, but was consuming and investing more and more.

This is only possible with resort to indebtedness and foreign aid. But both these sources of funding excess expenditure cannot be maintained indefinitely. There comes a point where correcting the macro-economic imbalance is imperative in order to create the conditions for long term positive growth.

The Mozambican authorities became convinced of this fact and, as from 1984, embarked on a series of economic reforms seeking to correct the imbalances generated in previous years. In 1987, a series of reforms, that counted on the support of the World Bank and the IMF, known as the Economic Recovery Programme (PRE), was introduced. The programme was later transformed into the Economic and Social Recovery Programme (PRES), precisely in order to stress the recognition of social aspects in the implementation of structural adjustment.

The main impact of the PRE/PRES was the re-establishment of economic growth. GDP, which had declined by about 30% between 1980 and 1986, grew between 1986 and 1994 at an average annual rate of 6.3%, which allowed an annual growth in per capita income of around 4% over the same period.

In the macro-economic framework, the PRES concentrated on setting up an appropriate macro-economic environment, with a competitive exchange rate, sustainable budget deficits, and a low rate of inflation, favouring savings and private investment.

For the private sector, the effect of macro-economic stabilisation translated into a more favourable environment for private property. Thus, while in 1986 current consumption and private investment represented respectively 97.6% and 4.4% of total income, in 1987 these proportions had changed substantially to 83% for consumption and 7% for investment. This trend continued until 1993, when expenditure on private consumption represented 55% of the income of households and companies, while expenditure on capital investment represented 35.3%.

In short, the liberalisation of the economy and peace had a substantial impact in changing the consumption and accumulation patterns of the private sector of the Mozambican economy. They facilitated the replacement of the productive physical assets of the private sector, which had been dilapidated during the period of socialist orientation and war.

As for the public sector, macro-economic stabilisation followed two main lines. First, cutting expenditure to accommodate it to the government's net revenue; and second, facilitating the government's access to foreign assistance in the form of grants and soft loans, while at the same time it was forced to honour debt service obligations. The state was thus transformed into one of the channels through which donors transferred resources from abroad to finance the economy.

Thus the strategy of macro-economic stabilisation in Mozambique also sought to reverse the trends whereby the state used mechanisms to extract resources from the rest of the economy, expand its own influence and provoke negative accumulation in the private sector.

As from 1987 it was the state that had gradually to stop consuming more than the national economy could support, and re-orient resources towards financing private sector accumulation. Later this included privatisation.

There is a growing consensus that improving human well-being requires a stable macro-economic framework. Insofar as growth is viewed not as an end, but also as a means for greater productivity, a stable macro-economic environment is a basic requirement for encouraging accumulation and ensuring effective use of human capital.

Although disagreements may remain concerning the details, there is a consensus within development theories that a stable macro-economic environment includes:

- a low to moderate rate of inflation;
- a stable exchange rate and positive interest rates which realistically reflect the trade-off between present and future consumption.

These indicators of relative prices are associated, respectively, with a moderate monetary expansion, a current account deficit largely covered by flows of direct foreign investment, and a reduced and tolerable fiscal deficit.

The macro-economic framework in Mozambique can be regarded as “stable” on only one of these criteria: reduced inflation. Since 1995, the real exchange rate has been substantially overvalued, and real interest rates remain at unrealistic levels to such an extent that these relative prices are both distorted.

What causes these distortions? An unsustainable structural deficit on the current account, covered by massive flows of concessional foreign aid, and an equally massive structural budget deficit financed by the same flows of foreign aid.

It can be considered that the high levels of economic growth in Mozambique in recent years have been sustained artificially by massive flows of foreign aid.

The challenge for Mozambique’s development is to keep up economic performance with a realistic level of foreign assistance.

The current discussion on the factors that help make the country’s economic growth unsustainable intends to encourage neither optimism nor pessimism, but to stress the need for a greater dose of realism.

### **Structural deficit on the trade balance**

The Mozambican economy displays a severe external imbalance. Table 4.4 shows that despite a recovery in the volume of exports, which reached an annual average of US\$ 200 million in the 1995-1997 period, compared with an average of US\$ 119 million a year in the 1987-1991 period, imports are still three times higher than exports. There are various ways of financing this difference. The perspective most in fashion is to pay for the imports with flows of foreign investment. However, even if there is a substantial increase in foreign investment, this approach is not totally realistic.

Entries of direct foreign investment increase the visible deficit on the trade balance. This happens because the foreign investment is intended to finance imports for the investment projects, while the local capital costs are covered by credit in local currency.

In 1995-97, direct foreign investment came to about 2% of GDP. Even if there was an increase that multiplied this figure ten times, it is improbable that the resources from direct foreign investment would be sufficient to cover the import bill.

Furthermore, were foreign investment to grow to levels sufficient to finance the deficit on the trade balance, eliminating the need for flows of foreign aid, this would certainly have a destabilising effect on the economy, and would generate substantial social costs. One of the consequences would be a worsening of the overvaluation of the exchange rate, discouraging an export-based growth strategy.

The mega-projects financed by foreign investment either do not produce exportable products, or produce export goods but based on capital-intensive technology. Secondly, large amounts of foreign investment, associated with labour-intensive methods, will tend to crowd out national investors, particularly if interest rates remain high. Thirdly, the entry of foreign resources would be associated with high interest rates, insofar as these would be one of the few instruments at the disposal of the government to check the excess demand generated by the inflow of foreign capital.

Thus foreign investment is not a substitute for mobilising domestic financial resources (savings). On the contrary, such investment may provoke inflationary and exchange distortions, ensuring that prevailing market conditions will be unfavourable for mobilising domestic savings.

### **Exchange rate management: who is served by floating rates?**

The growth of exports with a low incorporation of imported components should, in principle, be associated with an exchange rate that favours the use of local materials. Exchange rate management is crucial for export success. The exchange policy followed by the government is based on the system of floating exchange rates.

This tactical approach to exchange policy seems reasonable, in theoretical terms and is in conformity with the philosophy of the Bretton Woods institutions. In practice, this policy has been associated with an appreciation of the exchange rate in 12 out of the 16 quarters from the beginning of 1994 to the beginning of 1998. In the first quarter of 1998 the real exchange rate had undergone an overvaluation of 50% when compared with the third quarter of 1995. Had this result been due to a fixed exchange rate, it might have been described as mismanagement of the rate.

Economic development strategy should dictate exchange policy tactics. Clearly Mozambique needs an exchange rate that promotes exports produced through labour intensive methods, in order to reduce the deficit on the trade balance and increase the incomes of the urban and rural poor.

The floating exchange rate may have produced the opposite result, discouraging labour-intensive exports, and working against efficient import substitution, thus reducing the income of the poor.

If this argument is accepted, the need for another strategy becomes obvious, with the aim of achieving a realistic exchange rate, appropriate to Mozambique's development strategy.

There are two sides to the problem of exchange management. First there is a distortion that results from the combination of a floating exchange rate, massive inflows of official development aid, and a liberalisation of the capital account. Resulting from the liberalisation of the capital account, a large (but undocumented) portion of the assistance for economic growth, together with foreign private capital, enters the private sector directly or indirectly.

The supply of domestic currency has declined relative to foreign currency held internally, avoiding nominal devaluation.

The second side of the problem is the administrative nature of the determination of the trade in foreign currency. The exchange rate is regarded as determined by the market, if the flows of foreign currency that determine its level enter in response to market influences: the amount of foreign currency supplied and demanded responds to the exchange rate, and simultaneously determines its level.

But most of the flows of foreign currency into Mozambique have been determined administratively, and did not constitute a reaction to the needs of the market. Between 1990 and 1995, official aid to growth was on average three to four times greater than export revenue and net direct foreign investment combined. With this level of inflow of foreign currency, the appreciation of the real exchange rate is not surprising.

Even if most of the foreign currency flows had been determined by the market, the exchange rate would have continued being an administered price during this period, due to possible collusion by the private sector.

Most of the trade in foreign currency in Mozambique is currently controlled by six banks and eight foreign exchange bureaux, which operate a kind of oligopoly on the market. In this context of an appreciation of the exchange rate, a predominance of foreign currency flows not determined by the market, and the collusion of the private sector, an alternative to passive floating is needed. The policy choice is clear: will it be the government or the private sector that administers/determines the exchange rate?

The problem of capital flows dominated by official aid to growth has been exacerbated by the underdevelopment of the domestic capital market. For one thing, the monetary authorities have no instruments for effectively sterilising the flows of foreign currency. Such sterilisation requires that the government creates debt bonds to exchange with the commercial banks. These instruments were introduced in late 1997, and their impact on macro-economic management has not yet been felt.

There is room to argue that the floating exchange rate is not only inappropriate to the current conditions of Mozambique, but can even be a dangerous policy. Given the massive size of the trade deficit, the currency is supported by the degree of confidence economic agents have that the foreign aid inflows will continue for the foreseeable future. If the inflows are not sustained, the currency could suddenly go into free fall.

The government could opt for a competitive exchange rate, and later accumulate the reserves that would serve as a mechanism to broaden the confidence that would protect the country against speculative attacks on its currency. An exchange policy based on a gradual adjustment of the exchange rate could facilitate export promotion more than the current regime.

One of the lessons of the south-east Asian currency crisis is that GDP growth and price stability can be rapidly undermined if they are based on an overvalued currency, excessive current account deficits, and growing indebtedness. Decision makers in Mozambique cannot lose sight of the need to take precautions against the possibility of speculative attacks deriving from an overvalued currency which is in turn generated by a floating exchange rate.

### **Relative prices: who causes the distortions?**

Current macro-economic orthodoxy also stresses price alignment. However, it tends to adopt the narrow point of view that distortions in the economy are caused by government interventions.

In the case of Mozambique, one can note distortions caused by the behaviour of the private sector and of the donors.

The introduction of the structural adjustment programme translated into a dramatic increase in inflation fed by the nominal devaluation of the currency. Excluding the hyper-inflation of 1997, the average for the 1988-1995 period was around 50% a year, much the same as the average nominal devaluation over the same period.

The years of high inflation were associated with a distortion in the real interest rate (the Central Bank rate), which dropped to negative levels of around 56% in 1987-1991. In 1994 the real interest rate became positive, and in the years 1995-96, it again became significantly distorted, reaching levels of more than 33% on average.

This extraordinary positive real interest rate hides the magnitude of the distortion, measured by the way in which the central bank's interest rate and the rates charged by the commercial banks are out of line. For example, in the first quarter of 1998 the average central bank rate was lower than 20%, while the rates that commercial banks charged on loans remained close to 30%.

Orthodox analysis has been reluctant to condemn the current high levels of real interest rates as a distortion. Instead, they are justified as the reflex of an understandable premium, made necessary by the recent experience of high inflation rates, and the costs derived from the risks involved. In other words, high real interest rates are not regarded as a distortion, but as a necessity to give credibility to the government's promise to control inflation (and are therefore a risk premium).

This argument is surprising, since economic theory lays down a well known rule for real interest rates: they should be equal to the long term growth rate of per capita consumption (the Golden Rule). Assuming that the sustainable economic growth rate would be 5%, and that the population growth rate is around 2% per annum, real interest rates should be around 3%. In 1995-97, the interest rates charged by the commercial banks were about 10 times higher than this.

Overvalued real interest rates tend to create fundamental distortions in the economy. First, what is, in reality, a punitive interest rate discourages investment, particularly for small scale businesses and the family sector. Although some argue that what is important is the availability of credit rather than its price, this argument is based on the incredible assertion that economic agents are insensitive to relative prices.

Secondly, high interest rates exert a discriminatory effect between domestic and foreign investors. Foreign investors can resort to foreign (off-shore) loans, while Mozambicans face severe restrictions in access to these resources.

A third aspect is the distortion caused by high real interest rates in investment decisions. They provide incentives for selecting projects that will give a rapid return. Finally, an economy is a system of general equilibrium, so that considerable distortions in one key relative price have an impact on the others, thus distorting the entire price system.

The interaction between interest rates and the exchange rate should make it possible to adopt an export-based growth strategy, with a stress on human development. It is indisputable that Mozambique needs positive interest rates. But, more than this, the country needs a stable and competitive exchange rate. This will not be possible under the current regime which has produced punitive interest rates and an overvalued currency. These factors cannot be ignored when drawing up a strategy of organic and sustainable development for the country.

## ***Growth and development in Mozambique: a strong, weak or unbalanced link?***

### **A case study: the cashew controversy**

The controversy over the development of cashew production provides us with an interesting case for understanding the linkages between growth and development in the current Mozambican economy.

Cashew nuts have been among the three most important products in terms of the volume of export earnings. But apart from its weight among the main sources of Mozambique's foreign exchange, cashew has become an important case because it brings together a range of issues that dramatise the problems and challenges of development in Mozambique.

At independence in 1975, Mozambique had 14 cashew processing plants, with a capacity to deal with 147,000 tonnes of raw nuts. After independence, government either nationalised or "intervened" in the factories.

Intervention was a less formal way of the state taking over companies and placing them under its administration, without formally nationalising them. It was used in the case of firms whose owners had simply abandoned the country.

Currently there are 16 companies scattered across the country, facing the challenges of liberalisation which is the theme of this analysis.

The debate on the cashew sector occupies an important place in the framework of ideas about the development path most appropriate to Mozambique's circumstances. It involves agriculture and industry, and raises questions of choice of technology, poverty alleviation, the role of marketing, the criteria on which infrastructural development might be prioritised, and the role of government policy. It also touches on privatisation policy. The relevance of the debate also lies in the fact that it can be extended to many other cash crops.

The debate has centred heavily on domestic Mozambican questions, but its terms have always been set by the principles favoured by the World Bank, and by the counter-arguments of the cashew processing industrialists. The debate has erred by neglecting to some extent the reality of international competition, and its implications for the sector. This does not mean that the storm raised by the cashew problem has been irrelevant or that the subject has been exhausted. There are still urgent questions linked to cashew policy that need careful examination and an imaginative response. They have not received the attention they deserve.

### ***World market trends***

The international trade in raw nuts has dominated the cashew debate in Mozambique. The major importer of this raw material is India, which is thus an alternative market to the Mozambican processing factories. There are operators who derive advantages from exporting raw nuts to India, since they can achieve higher profit margins from this business. These traders face opposition from the owners of recently privatised processing factories who want the trade in raw nuts with India cut back.

The World Bank argues that opening up exports to India is also an instrument of discipline because it should, in principle induce the necessary adjustment on the part of the processing companies. The overall expectation was that liberalisation would push up farm gate prices, thus contributing directly to poverty reduction and faster growth.

The problem is that India's Eighth National Development Plan commits the country to the goal of supplying its own processing industry out of domestic production of raw cashews. It

seems likely that the price of raw cashew will fall as India's domestic production rises, since there is no other country with the ability to consume the raw nuts currently imported by India.

The international trade in processed cashew kernels is a vibrant market. All the signs are that demand will continue to grow, particularly with economic expansion in Asia and in eastern Europe, adding to the already strong demand in north America and western Europe. But as production expands so does competition, with cashews now being supplied from regions such as east Asia. Paradoxically African countries have lost market share in an expanding market. Mozambique is the most dramatic case of this.

Models of perfect competition cannot describe the reality of the market for cashew nuts. The Indian processing industry, for example, benefits from a variety of government support and incentives. Export incentives for Indian processing companies include not charging them the usual 27% duty on their imports up to a sum equal to 50% of the export value.

Newcomers to processing, such as Vietnam, are also committed to building a competitive capacity.

Consequently the price ratios that are used to reveal the level of "effective protection" do not adequately indicate the range of factors that affect differentiation in production systems and international competition. To assess the differences in processing levels, one must, for example, examine: supply side policy differences, variations in the concentration of the raw cashew plantations (and hence the conditions and costs of supply), and differences in infrastructure and services.

The implications of this analysis can be summarised as follows: if Mozambique pursues a free trade policy in marketing raw nuts, within a short period it will cease to have a competitive processing industry. On the other hand, if the government assigns a strategic role to cashew processing, then it must adopt the necessary measures and policies to pursue this goal. These measures will have to take into account the prevailing trends and patterns in the international cashew industry, as well as the difficulties and opportunities within Mozambique.

### *Raw material: producers versus traders*

Although Mozambique was once the world's number one producer of cashews, today its national orchard of cashew trees has undergone severe deterioration. Most of the trees have passed their productive peak, and many are diseased. This results in part from neglect of the trees during the years of war, and in part from failure to care for the trees, made worse by lack of knowledge about the best practices for harvesting the nuts, drying and storing them.

There is also a socio-economic aspect to be considered. Cashew is grown mainly by the family sector. There are also some "medium" sized cashew orchards, though it is hard to be precise about their number. For the peasants, cashew nuts are a windfall crop: although cashew yields far higher returns than staple food crops, it is not treated as a priority. The peasants regard their top priority as the food crops that ensure their subsistence. Moreover the same problems that affect staple food crop production also affect cashew farming. Very little attention has been paid to improving rapidly the stock of trees, in order to ensure the harvesting of good quality nuts.

The explicit intention behind the World Bank's support for liberalising the cashew sector was to cause an increase in farm gate prices for raw nuts and thus induce increased income in the countryside. It was expected that this would have a huge multiplier effect domestically.

Prices paid for cashew nuts have generally risen, but this observation needs qualification. Firstly, the main beneficiaries of price liberalisation have been the traders, and not the farmers/harvesters. Secondly, there is no obvious sign that liberalisation has provoked a



supply response, in terms of changing the proportion of available raw nut withheld for household consumption to that marketed, or in terms of planting new trees in the expectation of longer term price rises. Thirdly, the liberalisation is partial: the government still sets a “reference price”, widely regarded as the floor price for cashew nuts. But since the start of changes in this sector, there has been much hesitation and uncertainty about the application of this policy. Often it is only towards the end of the marketing season that the producers feel any effect from the reference price. Furthermore, prices tend to be much lower earlier in the marketing season, and rise gradually as the season progresses. The small producers/harvesters are generally poor, and are thus forced to sell their nuts early in the season.

Finally, even in places where the peasants manage to sell their nuts at acceptable prices, this does not result in higher living standards or the much proclaimed multiplier effect, since prices for many standard consumer goods, such as cooking oil and soap, have also risen. This is especially the case where the supply of these goods is controlled by the same traders who are also buying up the cashew nuts.

In terms of market structure, there is no perfect competition amongst the traders. Certainly the number of traders participating in the sector has increased since the mid-1990s, which has increased competition. But there is also market control, imperfect information, and asymmetry of market relations in general. For example, in some areas the small producers/harvesters are tied in debt bondage to small traders, who may themselves be similarly indentured to one of the large trading companies that dominate the market.

### *Processing: the mosaic of competition*

Since the onset of privatisation and partial liberalisation in the sector, there has been an increase in the number of cashew processing plants, despite the complaints by cashew industrialists about the policy changes in the sector. While this can be viewed as an indication that processing can provide good returns, it is clear that not all the companies are viable over the long term, and some of them have already gone bankrupt.

It is important to bear in mind that the economic viability of the industry does not depend solely on the level of the export surtax, although this factor is important in the short and medium terms. In the long term, the constraints on processing go beyond anything that a protectionist measure can affect, regardless of the level it is set at.

The main participants in the debate argue that the role of the state should be restricted to defining supposedly market-friendly policies. Any more assertive state intervention is viewed as a threat to return to the policies of state control that were in place prior to structural adjustment.

The processing industry is differentiated in terms of ownership and technology. Some companies are owned by foreign interests. This is the case of the Mocita factory which belongs to the Anglo-American Corporation. There are also companies whose capital is mostly Mozambican, and there are those that fall in between these two forms of ownership, such as João Ferreira dos Santos, a mainly Portuguese company, but which has been implanted in Mozambique for 100 years.

Some of these companies have adopted a technology close to the Indian model, which is relatively labour intensive, but involves a degree of health risk to workers. Others have opted for capital intensive methods, such as the Oltramare impact cutter system.

A further feature of the processing industry is that it is not well established. Many plants are still not working at full capacity, or are undergoing rehabilitation. The processing industry is scattered across Mozambique, and has been left by the government to play the market.

This generates a competitive spirit among the companies, which may lead to efficiency and to other competitive behaviour designed to obtain and protect market share. But they are not operating on a level playing field. Some firms may have links with international retail groups, for instance, or may be located closer to orchards that can produce high quality raw material; or they may have more money to invest in plant, in human resources, in marketing, or other areas. Policy makers have not viewed any of this as a matter for concern.

If Mozambique is to capture higher returns from a greater degree of value added in cashew, then the industry will have to create competitive assets that will allow it to secure niches in the retail markets of South Africa, Europe, Asia and the Americas.

The processing firms can only maximise the gains from this potential if they put more work into brand promotion and development. But to achieve this goal, strategic alliances must be formed domestically between companies in order to face external competition. But a lot needs to be done before the Mozambican companies can be induced, by deliberate policies, to collude on standards and marketing, which requires mutual trust in quality and in guarantees of production reliability, as well as sharing of knowledge-based assets such as marketing skills. Here again the conventional wisdom is that the government has no role to play in this. The slow rise of the sector up the cashew value chain will happen as a natural function of market dynamics. But reality shows that the government does have an important role to play, and one that should be taken very seriously.

### *The debate over cashew liberalisation: the World Bank, the government and the industrialists*

Cashew processing was one of the priority targets for the privatisation programme that began in the early 1990s, as part of overall economic reform. The seven nationalised factories run by the state firm Caju de Moçambique were sold to private businesses.

But in 1995 the World Bank put out a working paper calling for rapid liberalisation of the sector. The bank's plan involved liberalising prices, and even more significant, scrapping the surtax on the export of raw nuts, that gave control over the supply of raw material to the processing companies (Hilmarsson, 1995).

The Bank's paper mentioned a series of constraints in the sector such as: the lack of extension services, the need for urgent replanting of trees, the lack of accessibility to most peasant producers, poor communications, and a fragile marketing network. All this added to the general uncertainty and indefiniteness of the cashew sector in Mozambique. Despite these factors, the report insisted that raw nut production of 90,000 tonnes a year would be achieved through inducing a supply response via liberalised farm gate prices.

The Bank admitted that liberalisation might lead to the decline, or even the collapse, of the processing industry, but argued that this was of little account: increased cashew production and multiplier effects resulting from increased peasant income would compensate for the loss of jobs in the industry.

The report also argued that the marginal or negative value added in the processing industry in the 1980s and early 1990s meant that "the value of processed kernels was less than the value of raw nuts had they been exported directly" (Hilmarsson, 1995: 4).

At the heart of the Bank's policy advice was a series of projections on the possible impact of price liberalisation. Competition among traders in a deregulated market would push prices up, so that the peasants would end up receiving 50-70% of the border price instead of the 15.5% of that price prevailing in the early 1990s.

Assuming what was deemed to be a conservative supply response, production, this study imagined, should reach 54,000 tonnes within the first five years, increasing to 100,000 tonnes per annum in 10 to 15 years. With a producer share of almost 70% of the border price, and moderate supply elasticities, it was projected that the medium term (within five years) supply response could be as much as 80,000 tonnes, rising to 190,000 tonnes within 10 to 15 years.

Hilmarsson recognised there were certain factors that might affect these projections: he assumed a steady development of trade and infrastructure facilities; a stable policy environment; producer confidence in the price reforms; availability of inputs for planting new trees, and basic extension support for small farmers. In other words, the supposed conservative supply elasticities adopted in the projections assumed that none of these factors would present the peasant farmers with any problems. Furthermore, these projections did not give due importance to the quality of the raw nuts sold by the peasants, and did not acknowledge the potential impact of reduced international demand for raw nuts which might result from increased domestic cashew production in India. There was also an insufficient empirical and conceptual basis for how the study calculated its supply elasticity basis.

But the government acted on the advice of the Bank; it reduced the surtax on the export of raw nuts and liberalised prices. Given the Indian demand for raw nuts, the processing companies faced a sudden change in the competitive framework in which they were operating.

Cashew industrialists decided to resist this change in the rules of the game, and alleged that the government had breached the spirit of its contract as regards the competitive structure in which they expected to operate when they bought the factories. One firm argued that its contract with the government specified that the protective structure would be kept in place. Nonetheless, the export surtax was reduced, and there were plans to eliminate it altogether by the end of the decade.

Persistent pressure from the processing industry led to two results. First the government reached a compromise with the processors and with some representatives of the producers to slow down the reduction in the export surtax, in spite of World Bank criticism. Secondly, the Bank ordered a new study of the sector, and showed, at least in principle, some commitment to the idea of a viable processing industry in Mozambique.<sup>2</sup> The Bank agreed to relax its pressure on the government for further reductions in the surtax, which then stood at 14%.

The new study, carried out by the management consultancy firm Deloitte and Touche Ltd, concentrated its attention on the reality of the protectionist environment shielding the Indian processing companies. This study also found that the optimism as to the hypothetical advantages accruing to small cashew cultivators from price liberalisation and deregulation was unfounded.

The report recommended that the government should keep the surtax at 14%, and lift the reference price for raw nuts to 42 US cents a kilo.

This policy sought to benefit both the processing industry and the producers. It was claimed that this would both make the processing industries viable, and provide the producers with the necessary incentive to make investments which would improve the quantity and quality of the cashews harvested. The underlying theme was that modest price interventions by the government were welcome, but should be kept within “market-friendly” limits.

The Bank agreed that liberalisation had not produced the desired results in terms of increasing real farm gate prices, but continued to argue that the principle of free market price signals should be adhered to. It was saying that two wrong prices do not make a right price signal.

The main assumption of the Deloitte report is that liberalisation is desirable, but that a policy should be adopted allowing a benign distortion of the minimum price. This would serve the interests both of the producers and the processors, since total liberalisation would not be beneficial to either group. The apparent contradiction of this conclusion was not explored very far. But the report repeatedly highlighted the severity of the constraints to be overcome before one could reach the successful results desired.

It is important to examine the posture and interest of the main protagonists in this policy debate. They have been the World Bank staff, Deloitte and Touche, the government, and interests represented by the Cashew Working Group, which is strongly influenced by the processors. Sometimes companies suggested it would be possible to operate on a competitive basis without the crutch of the export surtax, but representatives of one foreign firm have suggested that there is indeed need for a protective policy.

The government has erred by not taking a leading role on this issue. It has succumbed to the approaches of first this, then that interest within the sector, which has harmed its credibility. The government's lack of a strategic attitude can also be noted from its technical relationship with the privatised companies. The government retains between 5% and 20% of the capital of the privatised firms, with a view to transferring this stake later to the workforce. In reality the government is just a sleeping partner in these firms, and has made no use of its stake to try to influence company behaviour.

### *The impact of policy changes*

The Mozambican cashew sector is undergoing a major restructuring which covers ownership, prices, marketing and liberalisation. The government continues to set a reference price for raw nuts, but this policy has been implemented rather hesitantly.

Uncertainty in the countryside regarding the policy framework may be one factor inhibiting the full impact of policy changes. In the processing sector, uncertainty also affects investment and inhibits the normal evolution of business strategies. It should also be recognised that whatever technology is adopted, there is a learning period before companies can be judged on their efficiency.

These factors suggest one should tread carefully when examining the impact of policy measures before making precipitate claims about their effectiveness, though the impact of policy uncertainty itself is difficult to measure. In weighing up the impact of policy changes, one should ask firstly how they affect prices, raw nut output, and peasant income and living conditions. Secondly, one should ask how the changes have affected overall export earnings from cashew, and the export earnings of the processing industry in particular.

The standard judgement is that liberalisation led to increases in farm gate prices for cashew, which in turn forced the processing industry to change its technology and adopt labour intensive systems. "Empirical evidence shows that competition in domestic trade is increasing. Since 1991/92, marketed cashew production has been picking up, except for the last cashew nut season which was reportedly 'a bad agro-climatic cashew season'. Other positive signs are increases in real farm gate prices, which are having a positive impact on the income of smallholder cashew growers... One can expect that... both farmers and processors will respond to price signals by carrying better current cashew tree stocks, adopting improved cashew tree varieties..." (World Bank, July 1997).

This would seem to confirm that the changes have brought about a socially inclusive, poverty reducing trend in the sector.

But it is recognised that, on the one hand, some processing firms are inefficient, and on the other, that overall cashew production suffered as a result of irregular rainfall in the 1996-97

season. It cannot be authoritatively stated that liberalisation is provoking a significant supply response, and it is far from evident that an appropriate structure for the processing industry can emerge from the current policy framework.

### *Price response action and poverty reduction*

Prices have risen somewhat under the prevailing system, and output has appeared to respond relatively well, if the poor agro-climatic conditions in the 1996-97 season in the north are taken into account and a short time period is examined. But there are some serious qualifications to such a picture. The price-output relation, over a short period and revealing some inconsistency, is not enough to claim that price signals are sufficient to provoke the kind of supply shift the sector requires. For if it can be claimed that poor agro-climatic conditions account for the disappointing output in the 1996-1997 season, it is just as valid to suggest that good agro-climatic conditions had a significant impact on the output gains of the previous three seasons, particularly when combined with the effects of people returning to their home areas and reviving cashew orchards that had been abandoned or minimally farmed during the war.

The price change itself needs to be decomposed. For the price has tended to be significantly higher towards the end of the season than earlier. While this may look like an interesting testimony to the interplay of supply and demand, in reality it means that many of the smallholder farmers sell early on in the season at lower prices than they might have obtained had they been able to withhold their raw nuts. One implication of this is that those who benefit from end of season higher prices - that is, from a degree of market liberalisation - are the large farmers who have better market information, better storage facilities, and better capacities for overcoming the constraints on the agricultural environment.

Furthermore, given the shortage of raw nuts in relation to installed processing capacity, the price rise over the past few years has not been a dramatic signal to producers. Looked at over a longer period than just from the start of liberalisation, neither the US dollar equivalent price, nor the volume of marketed raw cashew nuts has performed remarkably since 1995. This suggests that the policy is relatively ineffective.

One possible reason for this is that, in spite of some increases in the nominal farm gate cashew price, prices have still not risen as far as they might, because of the fragile nature of the domestic trading system. There has been an expansion in the number of traders, but there are still relatively few of them, and they do not appear to constitute a competitive market, since there are vertical ties between smaller and larger traders which undermine competition.

There has also been a rise in the number of small informal traders buying cashew nuts, but evidence suggests widespread mistrust of this group.<sup>3</sup> What amounts to debt bondage relations between some smaller traders and larger companies reduces their room for manoeuvre in the market, while the bargaining power of some peasant farmers is weakened by similar relationships with traders. Another reason for the mediocre trend in cashew output is that nominal prices have not translated into improvements in living standards for peasants with modest cashew orchards. This is because real prices have only been nudged up a little, and relative to the prices of manufactured goods demanded by peasant families, cashew farm gate prices have not risen significantly.

What research there has been suggests that many small cashew farmers are confused by the policy environment and price fluctuation. They recall encouragement to expand cashew production by the colonial state, and are surprised at the lack of support or promotional measures now.

There is reason to believe it will take more than inculcating a market culture among peasant farmers to elicit a major output response from them.

A further problem is that most of the cashews sold at the farm gate continue to be of poor quality. Indeed, data seems to indicate that the size distribution of kernels has shifted between 1994 and the mid-1990s, so that on average kernels are significantly smaller.

Little has been done to improve this, and the overall shortage of cashews for the processing industry means that there is still a market for poor quality nuts. It also seems that there has been no effort, especially among the million or so peasant farmers who account for some 90% of the national orchard, to invest in new tree planting and improved varieties, or to invest in yield improving practices for the existing stock, such as better cleaning around trees, prevention of tree burning, and better post-harvest care.

### *Poverty as a constraint*

The biggest constraint on the processing sector is the availability of raw nuts. The majority of producers are poor peasants, scattered along the length of the country, mainly in the coastal strip. Infrastructural rehabilitation has been uncoordinated, with the benefits mostly accruing to the south of the country. But even in the south there is evidence that the fragility of the infrastructure is cramping the prospects for cashew revival.

The distribution of the cashew orchard among scattered smallholders makes it difficult to prioritise infrastructural investments according to either lower per capita costs or higher concentration of foreign exchange returns.

Nonetheless, the cashew orchard is not distributed evenly among a million more or less equally sized farms with identical access to infrastructure, credit and inputs. Thus the problems faced by the producers are not uniform. So far there has been little discussion of the possible implications of this unevenness. No attention has been paid to empirical unpacking of what may be a myth of homogeneous smallholder production.

Furthermore, the implications of the poverty of producers need to be addressed. For cashew is a windfall or bonus crop for poor smallholder farmers. In a context of extreme poverty and vulnerability, even though the higher returns from cashew are acknowledged, the most pressing concern is securing a sufficient harvest of subsistence crops. Under these circumstances, there is a disincentive to devoting scarce resources to caring for cashew trees, harvesting timing and methods, and post-harvest drying and storage.

The small producers do not have facilities for long term storage, and they have little financial room for manoeuvre in order to maximise market bargaining power. They have little information about market options, and have serious difficulties in transporting their crop to market. The opportunity cost of allocating resources to prioritising the cashew crop is thus relatively high for most producers.

It is not surprising that the modest and uneven gains from liberalisation are failing to induce a dramatic change of behaviour, such as large scale planting of improved trees. Additionally, there is no standard approach to farm gate grading of nuts, and hence differentiated pricing, a factor reinforced by the desperation of processing firms. This is tending to change in some areas, such as Gaza province, where automated cutter system processing imposes high quality requirements for raw nuts.

### *The requirements for a viable industry*

If Mozambique wishes to maximise foreign exchange earnings through cashew processing, and particularly through climbing higher up the value chain towards branded retail packaging, it is urgent that the government take steps to ensure high standards of kernel quality.

One option would be to establish an agency to set standards and monitor them. The government need not be in exclusive control of such a body, but it must take the leading role. If necessary, the running of such an agency could be awarded by tender, in a timebound contract, to national or foreign institutions, adopting a variant on the experiment of contracting out Mozambican customs management to the British firm Crown Agents. This might help instill independence and probity. But to ensure that this works well, it must involve a strong training component linked to good salary packages for future managers.

It must be stressed that Mozambique will get nowhere if output quality does not improve dramatically.<sup>4</sup> Meeting best quality standards is not yet within the reach of many companies. So the government could opt to give firms a target date for meeting those standards.

Policy makers should be aware that some firms might go bankrupt. There are two possible responses to this. One is to envisage that business stress might lead to a concentration of the industry in a smaller number of companies and to consider this an advantage. Concentration might increase the scope for intense rivalry on the basis of a common infrastructure, as distinct from the economist's sense of competition among many small players.<sup>5</sup>

The other response would be to accept that firms will need assistance if they are to meet the rigorous standards needed to secure a place in the international market. This support must be bound to time and performance conditions. If companies do not take advantage of assistance to improve quality and increase exports, then there should be no hesitation about withdrawing the support after a given time. To prevent arbitrariness, this assistance should be government by clear contracts and rules.

Firms will be unable to make progress towards meeting quality and workplace standards, if every level of employee is underskilled. For foreign-owned firms this particularly affects lower skill levels and supervisory levels, since it is relatively easy for them to hire foreign managers. For other firms, including some with foreign owners or partners, the skills problem seeps higher up the staffing level.

The government and/or foreign donors could take responsibility by subsidising training directly or indirectly. Alternatively, negotiations with foreign investors could include clauses committing firms to taking on some of the responsibility for training, as a means of transferring some of the gains of foreign direct investment to the rest of the economy.

A commonly heard complaint among foreign business representatives in Mozambique concerns the shortage of properly trained accountants. Training in financial management related skills is hampered by an archaic system inherited from the colonial government. It is in dire need of reform and the government and its financial backers ought to attend to this urgently.

In the short to medium term, before a fully operational new structure for such training is in place, training initiatives may need to be combined with measures ensuring that trained Mozambicans do indeed take up positions in firms in key areas. For a related fact is that many of the most skilled Mozambicans refuse to work outside Maputo, although the major needs are scattered across the country, mainly in the cities and towns of the northern provinces, such as Nampula, which is the largest producer of cashew. Scholarships could be tied to postings in the provinces. Alternatively, special incentive packages could be subsidised in order to attract skilled people to regional production centres.

There are other constraints on firms' ability to improve performance to the levels required, and these too could be the target for government intervention. For firms belonging to Mozambicans, or those with a limited financial capacity, the prevailing high real interest rates are a severe problem, especially when it is difficult to sustain capacity utilisation because of lack of raw material. Here too the privilege of access to cheap credit could be offered against the leverage of performance criteria. But such a policy should only be pursued if there is a clear business plan relating to capacity to repay interest out of future earnings.

The Mozambican government should learn from the industry supports offered to, for example, Indian cashew processors, and should adopt similar measures. Mozambique cannot replicate the large domestic market which supports the Indian industry, but it can offer its processing firms export-related privileges, and can allow these to be passed on to others at a firm's own behest to ensure firms get flexible use of exporting privileges.

The cashew processing sector is not isolated from the rest of the economy. It has linkages - some of which function extremely poorly - to services such as vehicle importers, transport services, and manufacturers of inputs such as paint, gas, electrical gear, supply of weighing scales, galvanised fittings, spare parts etc. The processing sector is constrained by the poor functioning of some of these linkages. At the same time, the development of the processing sector may lead to the expansion or improvement of these activities (Hirschman, 1981).

There is a range of options for maximising the positive linkages. These could include: offering fiscal incentives or other privileges to firms that draw on Mozambican suppliers of input goods and services; offering incentives to Mozambican firms to prioritise rapid and quality supply of goods and services to cashew processing firms; penalising firms that do not comply instantly with government duty exemption permits advanced to processing companies.

Firms thus face a range of constraints on meeting high standards. They can meet these standards and pay a decent factory gate price for good quality raw material if, and only if, they are assisted in overcoming non-price constraints. A simple alternative (offered in the Deloitte and Touche report) is to combine a reference price for raw nuts with a surtax on raw nut exports favouring domestic producers, or even with a subsidy for processing firms. But it is likely that this would only go some way towards achieving the desired ends, because an effective trade and industry policy, selectively geared to specific industries, requires policy makers to go further than straightforward pricing issues.

Shifting from backwards linkages to forward linkage possibilities, the main issue is the development of marketing and branding capabilities. In the first place, astute linking of branding to standards not only of product quality, but of working environment, could enable the Mozambican industry to capture consumer markets in Europe and North America that are favourable to produce from developing countries.<sup>6</sup>

The basic requirement is an improvement in export market information available to firms. Once that information base is developed - and given the fragmentation and differentiation within the processing sector, this is bound to involve some degree of government promotion - then further steps may be taken towards developing marketing strategies and branding exercises.

The purpose is to create product differentiation that can lever the Mozambican product into a secure position internationally. Different markets may require different strategies. For example, for the South African market Mozambique could capitalise on the image of a Mozambican idyll. The foundation for this sort of myth is the role of Maputo as a tourist centre for South Africans under colonial rule; the myth still prevails today thanks to the



“pristine” coastal image of Mozambique and continued associations with features of Maputo such as the Polana Hotel.

Successful branding depends on a scale of output which means that more than one firm is involved. There are advantages to an industry-wide branding and marketing strategy, though this must exclude all firms failing to live up to production and quality standards.

Clearly the required skills are scarce but they do not necessarily require a huge amount of time to inculcate. Nor is there, in the short to medium term, a need for more than a handful of people with the relevant training and experience. Any donor can design a project of this sort, if the government and the industry can create an institutional set-up that can use such people effectively. Moreover, shifting up the value chain could involve industry collusion to present a unified price for quality branded output to the international market. This will not happen without government encouragement.

Indeed, firms with strong vertical integration links may have a disincentive to increase final product salted and packaged kernels beyond a certain threshold, if shareholder interest representing vertical integration includes large international wholesalers. This is the case, for instance, with Companhia de Caju Mocita, whose shareholders include E.D. and F. Man, who do much of the selling of white kernels to the “salters”.

As for the technology used, policy should probably allow for a variety, subject to basic health and safety standards and output quality assurance. But there may yet be room for policy to encourage firms to adjust employment inputs. For example, in the more automated production processes, there is a range within which the labour intensity of certain functions can be varied, specifically with regard to peeling the pink skin left after high impact shelling. With lower risk (partly a function of moving towards full capacity of plant operation) and with improvements in labour force skills, it becomes easier for a firm choosing this technology to opt for more labour intensive peeling. Whether this happens or not could be left to firms, or could be a target of government incentives.

### *The requirements of cashew cultivation policy*

But none of the initiatives suggested here will secure a high enough return unless they are accompanied by a dramatic improvement in the supply of raw nuts. The Deloitte and Touche report suggests that 1.5 million cashew trees, amenable to modern methods of plant protection, need to be planted annually.

The first requirement is to acknowledge the constraints, risks and uncertainties associated with smallholder farmers investing in improved and expanded cashew cultivation and harvesting. The implication of this is that policies are required that should:

- offer incentives, chiefly price related;
- combine incentives with measures to absorb some of the risk;
- establish criteria on which a forceful case can be made for the prioritisation of infrastructure investments;
- put a price premium on better quality nuts;
- provoke a massive replanting exercise as well as the dissemination of modern methods of tree care, and improved harvest and storage practices.

Even though cashew is not a “new” crop in Mozambique, it has many of the properties associated with a new and high-value crop, and hence may need to draw on the kinds of policy experiences that have achieved proven successes in encouraging farmers to switch to

cash crops. That is why we refer to the policies required in terms of “infant agriculture” policies.<sup>7</sup>

They are anathema to the proponents of free market ideals, but they have been extremely successful in other cases, especially when linked to processing. Such experiences range from asparagus and mushrooms for canning in Taiwan, to tomatoes for canning in Thailand, to the role of the Kenya Tea Development Authority.

There is no universal recipe for pursuing these objectives, but policy makers should at least commit themselves to exploring the range of possibilities rather than slavishly surrendering to the seductive elegance of the free market model.

There is abundant evidence that sub-Saharan African agriculture has not responded as hoped to price liberalisation and trade deregulation. Not only are price elasticities of supply unknown in Africa with any precision, but they are not functionally inherent properties of either given crops or individual peasant farmers as reducible economic entities (Sender and Smith, 1990; Jaeger, 1991; Jayne and Jones, 1997).

There is one effective strategy for pursuing the objectives listed above. That is to bet on the strong. For while it is blithely stated that more than 90% of Mozambican cashews are produced by the peasant sector, this gives a false impression of a homogeneous spread of farmers with equal size farms facing the same range of constraints. This is not true, of cashew or any other form of agriculture in Mozambique. At the very least, some producers are more equal than others, in terms of proximity to infrastructure and markets, for instance.

Informally, the majority of analysts accept this, but few are bothering to analyse the distribution of producers in terms of access to it, size of farms, and quality and proportion of total crop produced. Yet, in a differentiated production structure, larger farmers tend to have better access to transport and to finance; they have better market information; they have better facilities for cashew drying and storage; they are better placed to bargain with traders for better prices. In short, they face less threatening constraints, and thus are better able to exploit incentives, and to have a lower perception of cashew production risks.

Furthermore, it would be possible to combine such an approach with a mapping of the areas of greatest concentration of the national orchard, and of potential for orchard expansion. This would provide a basis for establishing priorities for infrastructure investments, particularly since such an exercise is likely to provide a strong argument for allocating investment in northern provinces such as Nampula, with relatively high population densities and a large share of the total cashew orchard. This could also be a less risky route to poverty reduction than an even spread of initiatives across the whole zone of cashew production, regardless of distance from functioning roads and towns, and of the “absorptive capacity” of remote smallholders for a package of measures to transform their cashew farming.

This latter point is particularly significant, if it is acknowledged that poverty can be reduced not just through own production improvement, but through wage labour (Sender and Smith, 1990; Cramer and Pontara, 1998). For farmers with more than a minimal number of trees are more likely to employ wage labour, even if only seasonally. Immediate research should be undertaken in order to assess more precisely the distribution of the cashew orchard and the differentiation in characteristics of farmers.

### **Emerging agriculture policies and agro-industrial exports**

A classic approach to securing a surge in high value crop production is to integrate production vertically with processing. This can be done by the state or it can be done by drawing on the corporate sector, particularly multinational companies with a higher degree of vertical integration into marketing and export. The advantage of such integration is that it can offload

some of the risk associated with changing cropping patterns and practices from the shoulders of small and medium scale farmers, and hence help induce the desired response. The Deloitte and Touche report ruled out such strategies, rejecting the option of offering concessions to processors similar to those extended to cotton out-grower schemes such as the Lomaco scheme in Cabo Delgado province. But there was no justification for such an out-of-hand rejection.<sup>8</sup>

The option needs to be assessed against examples from elsewhere. These include the Lam Nam On project in Thailand. In 1986, the Thai government abandoned a general, traditional crop support programme in favour of supporting the private sector through the Agro-Production and Marketing Programme (APMP), whose staff acted as a catalyst between farmers and private sector firms, running demonstration plots, sharing agro-climatic information, soliciting visits by firms, at first teaching input usage and farming techniques but later offloading extension work onto the private firms.

The firms provided a package of incentives, including risk-sharing: if the crop failed through no fault of the farmer, credit and input loans were forgiven. Some producers were even offered payment during natural disasters, to encourage them to stay with the crop mix for the next season. The result was a surge in production of high value crops such as tomatoes for processing and fresh watermelon (Benziger, 1996). A further significant feature of the scheme was the role of access to international markets in enabling risk reduction measures to be taken.

Another example is mushroom and asparagus growing in Taiwan. These were relatively new crops in the 1950s, but spread rapidly to account for 18% of Taiwanese agricultural exports by the late 1960s. The beginning of the mushroom scheme relied on research efforts of the Joint Sino-American Commission on Rural Reconstruction (JCRR), in collaboration with the Taiwan Agricultural Research Institute (TARI). In 1960, representatives of the JCRR, of the canners' association, and of the government visited Europe and the USA to study production and marketing issues, and later set up a pilot operation for exports of canned mushrooms. With the spread of the crop, inspection and grading were done at collection centres run by representatives of the local Farmers' Association plus the contracting cannery, working to standards set by the government. The government also inspected the product at canneries and regulated spawn houses.

Ongoing research continued to improve qualities and yields. By 1962, increased output was pushing down prices, and the government intervened by setting up a system of planned production and marketing. Each cannery was assigned a quota based on its share of the previous year's output, adjusted to projections of export demand. The canneries then contracted with their local Farmers' Association for the supply of raw material. Prices were determined by collective bargaining between canners and farmers, under government arbitration. Finally, the industry colluded to present a single price to the world market.

Behind this system was a government decision that it was more important to ensure that the Taiwanese product was established internationally, and was a stable source of guaranteed foreign exchange, than to let canners and growers increase production blindly.

Similar developments occurred with other crops. For example, asparagus had not been managed by the public sector, even though its initial expansion was stimulated by joint JCRR-TARI experiments and information dissemination. But when cannery competition began driving the export price down in 1970, the government placed asparagus farmers and canneries under the planned production and marketing system as well. It is important to stress that there were inefficiencies in these systems, but that Taiwan dominated the world canned asparagus for some 20 years, and was also for a long period the largest single exporter of canned mushrooms (Benziger, 1996).

The point of both these examples, and others could be cited, such as the development of sugar cane production in Kenya, or the Kenya Tea Development Authority (KTDA), is that short-run price flexibility was sacrificed in the interests of rapid expansion of output and improvement in quality, linked to risk reduction measures and vertical integration with processors and foreign markets. In both cases, though in a limited way, the state took a decisive role.<sup>9</sup>

An alternative approach would be to set up a producers' association in which the government might take a significant role as buyer. Such an association would seek to ensure that a competitive bidder offered strong prices, but also to insist on quality related price differentiation. It could also be in a position to disseminate information on best practices, and help farmers secure access to inputs. It could be modelled, for example, on the early successes of the Kenya Tea Development Authority.

The World Bank is nervous of any policy that might entail inefficiencies. But policy makers have to judge whether a degree of inefficiency in the short to medium term might be justified, if it secures the raw nut supply improvement that is drastically needed, as well as making an impact on poverty reduction.

The important thing about any model is that it should not be a government monolith, but should involve producer representatives, and should allow for institutional change over time as circumstances develop.

While we would urge policy makers to look carefully at a range of institutional and policy arrangements, including those mentioned above, the precise form that an effective policy and institutional framework for cashew should take in Mozambique would have to have unique features.

The debate over the cashew sector in recent years presents an opportunity to build a base to choose a future direction. The privatised producers have been forced by policy change to link up to some degree with producers and traders, in order to reach what is claimed to be a representative compromise. This may be just the kind of experience and relationship to provide the foundation for an evolving Mozambican institution.

### *Mozambique's chances: again the cashew example*

Mozambique's chances for success in exporting processed cashew kernels led to the analysis in this report. It is true that Mozambique is competing on an unequal footing with the established exporters such as India and Brazil, and risks being pushed out of the market by emerging processors such as Vietnam.

But Mozambique is still not out of the international race. There are examples of vertical integration and regional and European market links via multinationals like the Anglo-American corporation, the owner of the Mocita factory in Xai-Xai, which could be built upon. There are opportunities to move up the value chain towards salting and packaging and the retail of branded packs of cashew.

One approach might be to develop a national branding capacity, but this is unlikely to appeal to leading firms who do not want to be associated with others whom they regard as producing lesser quality kernels and with poorer health and safety standards.

A related constraint is the disincentive to competitive collusion among firms where the ownership structure, and the related degree of financial, technological and market information links, is highly uneven. This presents a challenge to government: whether to take a clearer policy approach towards shepherding the firms in the direction of joint standards and

branding; or leave the production sector alone and simply hope for potential gains from shifting up the value chain to be maximised “naturally” in time.

### *Implications of the cashew debate for other sectors*

The cashew debate in Mozambique in recent years has had the merit of focusing attention on the need for radical change within the sector: in so doing, it has highlighted a number of constraints relevant to much of the Mozambican economy.

The debate around policy has pitched particular sectoral interests within Mozambique against influential observers whose contributions have been useful, but confined within very narrow analytical limits.

The policy debate needs to go beyond market driven prices, and indeed beyond mild price “distortions”. The insistence on “market friendly” policy is irrelevant where the real focus should be on production and processing-friendly policies.

Policy should not start from the supposedly higher principle of free market efficiency. Rather it should begin with an analysis of the opportunities and constraints, including a realistic assessment of what it takes to compete successfully in the world market for processed cashews in the light of competitive advantages developed elsewhere. On this basis policy makers should identify needs and design measures to meet them. This is going to entail both infant industry policies and infant agriculture policies.

Clearly this strategy requires commitment from the government: it is a high risk strategy given that the government has little record of truly successful intervention in the economy in the past. The success of the strategy depends on government keeping objectives in mind rather than being waylaid by sectional interests and stagnant analysis in the face of changing circumstances.

Success would also depend on recognising that this is a case of selective intervention with time and conditional limits. For there is incontrovertible evidence that selective, well-managed interventions are critical to successful industrialisation, in Africa and in every other developing region. Furthermore, if there is to be any industrial enrichment of the development process in Mozambique between primary commodity production on the one hand and mining and service activities on the other, cashew processing can claim to offer particularly appealing opportunities.

## Chapter 5 – For a strategy of rapid human development

### *Three options - only one leads to rapid poverty alleviation*

Frequently it is assumed, implicitly or explicitly, that economic growth in itself leads to an improvement in human development.

This is linked to another idea, habitually applied to low income countries such as Mozambique: the idea that, at the start of economic revival, redistribution of wealth is of limited relevance because there will always be very little to distribute among the population (HDR, 1996: 6).

If these two ideas are right, then it is also true that the effect of redistributing the benefits of economic growth, the famous “trickle down” effect, would have an equally limited effect in reducing poverty (Gaiha, 1993: 11ff).

This discovery can be best illustrated through a simple hypothetical example. In Table 5.1 it is assumed that the Mozambican population is divided into three parts: the poor, the middle income group, and the rich. The average incomes of the three groups are US\$ 50, US\$ 100 and US\$ 150 a year respectively, which are regarded as falling within the normal distribution of income. A further starting point is that the economy is growing at 5% per annum, and the strategic objective is to double the income of the poorest third of the population.

If the status quo holds, and if economic growth is distributed equally, then 14.2 years would be needed to achieve the above goal: to double the income of the poorest third of the population.

This result, like others, in which the incomes of the poor grow at a less rapid rate than the economy, are possible results of an economic strategy based purely on market forces for the allocation of factors of production, and for promoting capital accumulation.

In reality, more than this can be done, through different policy strategies. To illustrate this, consider the possibility of deliberately choosing mechanisms that promote an increase in the incomes of the poor at a rate double the growth rates for the incomes of the other groups. In this case, as Table 5.1 shows, the target of doubling the income of the poor could be reached in less than a decade.

Growth that furthers an improvement in the living standards of the poor does not necessarily run counter to a market economy, to efficiency in the allocation of resources, to promoting the private sector, and to minimising arbitrary intervention in markets.

But herein lies the difference between a strategy in which economic growth is viewed as an end in itself, and one in which it is seen as a means for human development.

The elements for a human development strategy are what packages the argument in Chapter 4 of this report. The general principle behind the analysis provided in this work is that human development, and reducing poverty levels in particular, requires policies deliberately designed for this end.

In the preface to the 1996 HDR, Speth drew attention to “the limits of trickle-down economics” (HDR, 1996: iii). The 1996 HDR supplies convincing evidence to refute the empirical validity, both of the automatic link between growth and development, and the idea of an inevitable deterioration in income distribution:

“These hypotheses have been disproved by the recent evidence of a positive correlation between economic growth and income equality (as represented by the share of the poorest 60% of the population). Japan and East Asia pioneered this form of equitable development and China, Malaysia and Mauritius have been following a similar route more recently” (HDR, 1996: 6).

## **Obstacles and opportunities**

### **Does liberalisation automatically wipe out poverty?**

The hypothetical benefits of the rapid liberalisation of the trade in cashew nuts were discussed in Chapter 4.

The argument behind such an expectation was that liberalisation would cause an increase in farm-gate prices, thus sparking off an increase in supply from small scale producers.

Export earnings deriving from the increase in production would be significant, while one of the beneficial effects of the policy would be its potential for eradicating rural poverty. Clearly, the possibility of being able to combine increased export earnings with the eradication of poverty led to great expectations, since other sectors with major export earning potential do not have the same direct effects on the elimination of poverty. But is this straightforward equation between export earnings and poverty eradication valid?

The difficulty lies in the fact that liberalisation starts from the assumption that complete exposure to international competition, even if this implies the demise of most of the processing plants, is the best, if not the only, way to eliminate poverty.

But there is no empirical evidence that liberalisation in itself contributes to the eradication of poverty; nor that its multiplier effects on the economy can be regarded as a given.

There are other areas that can be exploited. Cashew kernels are a product of considerable value because of the large international demand for this snack.

Experience shows that diversifying vertically from primary products to derived, processed commodities captures higher returns, and is therefore advantageous. For example UNCTAD (1996) compares East Asian efforts to shift up the value chain in processing of goods derived from steel and timber with Latin American producers getting stuck lower down the value chain.

The evidence shows that processed products bring greater stability in earnings, since their prices are more stable than those of primary products (Yeats, 1991).

A competitive processing industry could not only lead to the reduction of rural poverty, but also provide some industrial employment.

If the cashew processing industry is genuinely driven forward, it may have both forward and backward linkage effects. Such linkages could result in beneficial multiplier effects for other sectors and serve as an inducement to develop internationally competitive marketing and branding skills. For example, a solidly-based local industry could have an immediate interest in research and development geared towards a rapid increase in disease resistant cashew trees. Linkages with foreign markets can establish market infrastructure that may be useful later on in the development of other export products. It is clear that such linkages have to be deliberately created and strengthened, since the market will not do this on its own.

## Some African successes in processing primary products

One of the factors explaining sub-Saharan Africa's economic underdevelopment is the inability to develop a competitive manufacturing base. But there have been examples of African countries shifting successfully into processing, including Ivory Coast and Senegal (canned tuna exports), and Cameroon, Congo, Ivory Coast and Ghana (exports of processed wood) (UNCTAD, 1995; Yeats, 1991).

Nevertheless, the constraints are very pressing, and not much can be done to remove them since in many cases they are structurally embedded in the relative factor endowments of low income countries.

The Mozambican experience confirms that lack of skills in the workforce is a major constraint in access to earnings from exporting processed agricultural produce. UNCTAD (1995) sets out the main types of constraint facing sub-Saharan African processing of commodities as: process-related factors, tariff escalation in export markets, and barriers arising from vertically integrated industry structures.

Process-related obstacles include the need for high inputs of technology and market information, and skilled labour for production, management and processing. There are often also large economies of scale which means that successful processing depends on significant output levels, so that a viable domestic (or regional) market may be a critical step to export success.

Exports of processed fruit, vegetables and fishery products are often constrained by stringent quality and sanitary requirements in major importing markets, and by the fact that new entrants compete unequally with already established firms with information networks and brand names.

Import tariffs can limit exports of processed products, but there is plenty of evidence of developing countries successfully finding practical solutions to this challenge. Sub-Saharan African countries have generally enjoyed trade preferences on exports to the European Union, preferences that have been greater, the higher the degree of processing.

New entrants to processed commodity markets may also be constrained by the presence of large, vertically integrated firms with considerable market power. These constraints can be tackled in various ways, including developing close links with multinational companies, or taking effective measures to ensure a regular supply of good quality raw material as an inducement to further processing, and this will involve some careful pricing policies to ensure viability.

Clearly the most pressing constraints are internal rather than external. They can be addressed through policies aimed at ensuring adequate infrastructure, sharpening incentives to promote technological, managerial and marketing skills, ensuring raw material supply, promoting product quality and production sanitation standards, and providing market information.

If the potential gains from processing are acknowledged, it is ridiculous to make assumptions about level playing fields and the optimality of unregulated market conditions. International markets for the production and trade of processed commodities are rich in imperfections, and the challenge for any country is to promote those market imperfections that work to its advantage.



## ***For a strategy of rapid human development***

### **Strengthening the linkages between growth and development**

There may be many development strategies in a country, and they may be altered for various reasons: but the only strategy which is really committed to human development is that which genuinely leads to an expansion of people's choices.

This means that the determinant factor for the prosperity of a nation is not the existence of resources in themselves. Equally, the prosperity of a nation is not inherited, "nor does it emerge from the abundance of natural resources or of cheap labour, or from its interest rates, or from the value of its currency" (Porter, 1995: 135).

The availability of abundant natural resources only becomes of benefit for the population of a country when these resources enrich the lives of most people, allowing them to live longer, healthier, more educated and creative lives, as well as to enjoy a decent standard of living, freedom, dignity, self respect, and respect for others (HDR, 1996: 1-10; 1997: 15).

In the perspective of human development used publicly since 1990, Mozambique is currently classified as a country of low human development and with a weak and slow pace of economic growth. In a specific reference to Mozambique, in the context of political recommendations to countries with weak linkages, the 1996 HDR stated:

"At the rates of progress that prevailed between 1970 and 1993, these countries will not achieve the HDI of industrial countries for nearly 65 years. At the rates prevailing during the same period in a country such as Mozambique or Niger, it would take more than two centuries to reach the HDI level of industrial countries" (HDR, 1996: 83).

This worrying prognosis illustrates the gigantic effort that Mozambique needs to make in order to provide positive and rapid human development to its population.

From the purely economic point of view, a country which wishes to obtain real growth in per capita income, that is, a rate of economic growth that is higher than the population growth rate, needs two basic things:

- a vision which expresses the destiny of the country in terms of human development; and
- a strategy which lists the initiatives and activities necessary to attain the goals that inform the vision.

A national development strategy, or indeed any strategy, contains three basic elements: the overall objectives (the expected results), the policies (including the resources necessary to achieve the desired objectives), and the monitoring (continuous assessment of performance and consequent adjustment when necessary).

Development strategies involve several levels of intervention, which means they do not necessarily require a sophisticated level of planning or intervention. The scale and form of intervention vary from sector to sector and obey pragmatic criteria.

But the important aspect to bear in mind from this report is that economic growth needs to be defined around a strategy for the human development of the population. This definition requires what the 1996 HDR called a "skillful and intelligent" management policy, that is a policy that deliberately builds and regularly strengthens the linkages between economic growth and human development.

In the case of Mozambique, the need for such a skillful and intelligent policy, acknowledged and applied by all the actors in the development process, is even more pressing because of the

high indices of poverty. Poverty alleviation and eradication can only be achieved by increasing the income, equity and social stability of the population.

There is no finished formula for how to achieve these goals, and there is not even a universal framework applicable to all countries. What does exist is the conviction that it is indispensable to reduce to the minimum the number of people who are poor in any society.

Poverty exists in specific social contexts. The economic reforms implemented over the past decade have led to the opening of the Mozambican economy to the world economy, and the transfer of wealth creating mechanisms to the private sector. These reforms are indispensable for reviving economic growth, but they are not sufficient for an effective linkage between growth and human development. This was certainly the motivation, as explained in chapter 4, for transforming the PRE into the PRES - Economic and Social Recovery Programme.

Political and administrative reform, the decentralisation and privatisation of public assets, institutional and legislative reform, monetary and fiscal stabilisation, and the policy of attracting foreign investment, have sought to ensure short term economic stabilisation.

But reforms with short term goals have to rest on a long term development vision. Such a strategic, long term vision always emerges when we ask, for example, what is the objective behind the efficient allocation of resources. And whatever the reply may be, it cannot be limited to clichés about “accelerated growth”, since the question that immediately arises is: rapid growth for what and for whom?

The search for effective replies to this sort of question points to the need for a listening culture, one that takes collective needs and social judgements into account as part of the search for an inclusive and participatory strategy. Such a strategy is required because of the fact that market mechanisms may induce or guarantee economic growth, but are not sufficient to ensure the elimination of human deprivation.

On the other hand, collective judgements and consensus are not always easy to achieve. Social generations characterised by different kinds of participation generate different judgements and these influence the drawing up of socio-economic policies.

In any case, each society produces, implicitly or explicitly, a collective vision of what constitutes economic, political and social justice. The absence of a consensual vision always results in conflicts which lead to instability. When the collective vision is inconsistent with the results of economic growth, governments lose confidence and credibility among their people.

The data currently available about the performance of the Mozambican economy suggest that it is becoming integrated into the world economy, through an accelerated revival of the domestic private sector, and the correction of macro-economic imbalances.

But the great challenge facing Mozambique in the immediate future is to achieve a rapid increase in its human development, resting on economic growth that is also rapid.

“The rapid growth in the 1960s in some African countries with weak links was short-lived because it was based on a commodity price boom and undiversified economies. These countries need to accelerate their economic growth to initiate and sustain improvements in human development. Although many have achieved significant improvements in human development with modest growth, the pace of improvement slackens with economic decline” (HDR, 1996: 82).

To some extent, as shown in Chapter 2, this happened in Mozambique over the past two decades.

A coherent human development strategy in a country like Mozambique, with weak linkages between the pace of growth and development, needs a major effort to generate and accelerate the former through investments in the latter, and vice-versa. That is, economic growth is necessary to support progress in human capacities, but these capacities are in turn necessary so that positive and rapid growth may be sustainable (HDR, 1996: 82-83). The need for a human development strategy is becoming ever more urgent because the level of economic growth, although significant in relative terms, is extremely fragile, and cannot be sustained under the current conditions of scattered policy interventions.

### **The need for massive investment in human resource development**

The shortage of trained staff is one of the characteristics of weak and unbalanced human development. It limits the number of strategies that can be outlined and implemented successfully. However, this structural fragility does not obviate the need for a strategy. The challenge is to find the policies that create the necessary space and incentives to free the creative potential of available resources, through participation in the search for solutions to social problems, because every human being is a resource. This point has to be clear for all members of a society.

“Experience suggests that no country undergoes a structural transformation of the economy without raising basic education levels. The well-known links between female education and fertility, between education and productivity, and between mothers’ education and children’s educational attainment all explain why this is so... Accelerating the pace of progress calls for policy change and a long term commitment by the leaders and the people to pursue universal education, literacy and minimum standards of health. National, regional, local, community and family goals must be set” (HDR, 1996: 82-83).

So that Mozambique may enter a new stage of development, that is, to pass from a phase of positive and rapid economic growth to a phase of rapid human development, it will be necessary to carry through a coherent poverty reduction strategy, relying on making use of human potential and economic growth woven together in a matrix of objectives, tools of intervention, and assessment and monitoring of progress.

The first step in drawing up such a strategy is to identify the general objectives, through national debates the purpose of which is to awaken the creative potential of the population. This step is already, in itself, an integral part of the chosen strategy.

Once the general objectives are identified, the means for achieving them can be selected on the basis of their relevance/potential, and on the real capacity of the government and of society to use them as mechanisms for broadening social well-being.

The next step is the establishment of mechanisms to monitor the results. Like the setting of objectives, this could also be a participatory process, but without excluding the technical covering which is always a key component since it is on this component that the capacity for implementing the development project depends.

### **The role of the state and other institutions**

The state plays an important role in the development process. Its intervention is optimised or made difficult according to whether or not there exist participatory mechanisms which allow all social forces to make their views felt about the actions of the state and of market forces, and to influence the shaping of development policies most appropriate to the circumstances and characteristics of each country.

Whether societies are just is also measured by the way in which institutions accommodate the interests of all actors in the process of wealth creation. The state thus takes on the role of

mediator between the interests of the comfortably off classes, who are interested only in expanding still further the power of markets, and those of vulnerable groups who need markets that are more sensitive to their condition in order to improve the quality of their lives.

The state therefore establishes an equilibrium between the interests of these two groups (which are sometimes diametrically opposed) and in promulgating policies which assist in the reduction or elimination of deprivation and injustice.

## ***What prospects for the future?***

This first National Report on Human Development in Mozambique stresses four important aspects;

- First, the nature and causes of the country's low level of human development.
- Second, the extent to which the economic crisis has blocked Mozambicans' human progress.
- Third, the enormous effort that the country needs to make so that the recent economic recovery is not compromised by constraints in other human dimensions.
- And fourth, the need to create and strengthen effective links between economic growth and human development.

In the last half of the 1990s, the economy has revived in an encouraging way. This will certainly be increasingly reflected in the HDI, because the HDI is a national aggregate that expresses figures in an undifferentiated way. Whatever the way in which growing wealth is distributed, there is no doubt that Mozambique needs strong and rapid economic growth. This is true, both in the event that growth benefits only a minority, but above all if it improves the conditions of the general population.

This National Report will be extremely useful for the debate about development in Mozambique, if it is transformed into the first of many others motivated by the same spirit which has inspired its authors. Many of the questions raised here have not been discussed exhaustively. Many of the opinions presented here are certainly not shared by all readers, or even by all the authors who participated.

But that is why the Report was written around a question and not an answer. If the question posed and discussed here motivates debate and more research by other bodies, the main objective of this publication will have been achieved.



