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Economic Growth in Mozambique? An Assessment

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Economic Growth in Mozambique? An Assessment*

Pier Giorgio Ardeni**

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Abstract

In this paper we try to assess the nature, size and consistency of recent economic growth in Mozambique. We attempt to verify whether and to what extent this growth is unprecedented as has been claimed. We look at the available data to assess whether this growth is even across sectors and GDP components. Finally we try to assess whether by any indication we can say if observed growth is balanced and, if not, to what extent economic policy is actually responsible. We argue that economic growth in Mozambique still appears to be out of balance, weak, uneven, and unsustainable, calling for a re-orientation of economic policy able to guarantee a more balanced and even growth across the economy. We also argue that, as a stable and steady economic growth is not warranted, Government action should be inspired to broaden its sets of instruments and goals, and that international agencies and donors should help it adopt the consequent policies. The spiral of debt, aid and conditionality certainly cripples Mozambique's Government autonomy, but it is only by broadening its sets of instruments and goal that Mozambique's economy will embark on a sustainable growth path.

JEL Classification: O11, O19, O20, O55

Keywords: Economic growth, economic policy, foreign aid, economic development, Government role, Mozambique.

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Introduction

Recently several commentators and policy observers have pointed out the unprecedented rates of economic growth in Mozambique. According to the World Bank country web-page presentation, “with 12.4 percent GDP growth in 1997, Mozambique is the fastest growing nation on the African continent”. Mozambique is one of the 25 fastest-growing countries recorded by the World Bank (1997) for the 1900-1995 period. The World Bank “Mozambique at a Glance” table reports for 1998 GDP a 12% growth rate. The most recent IMF Policy Framework Paper (PFP) for Mozambique states that “during 1996-98, the economy grew at an annual average rate of 10 percent”.¹ In this paper we will try to assess the nature, size and consistency of recent economic growth in Mozambique. We will attempt to verify whether and to what extent this growth is unprecedented as has been claimed. We will then look at the available data to assess whether this growth is even across sectors and GDP components. Finally we will try to assess whether by any indication we can say if observed growth is balanced and, if not, to what extent economic policy is actually responsible.

Sub-Saharan Africa (SSA) has suffered from what Easterly and Levine (1997) have called the “growth tragedy”, and Mozambique has certainly not been exempted. Floods, droughts, colonial rule followed by a “civil war” between a guerrilla movement—armed by Rhodesia first and then by South Africa—and a centrally-planned socialist economy, certainly contributed to this tragedy. Against this background, recent enthusiasm for the observed growth rates is understandable. And yet, has Mozambique really stepped onto a durable growth path or will the foundations for Mozambique’s hopes prove too fragile?

In this paper we try to assess whether observed growth in Mozambique really is unprecedented. We will show that the current growth rates have already been experienced in the last forty years and that the current levels of national product are just about the same as those attained in the last years of colonial rule. Moreover, in a regional comparison, we show that there is little reason to consider Mozambique as different from most of its neighbors, with whom it appears to share the regional slumps and the booms of economic performance. Thus, not only has Mozambique’s growth been observed before, but according to most international standards, Mozambique still looks like one of the poorest and most lagging countries in the world.

Yet, if there are reasons to cheer, as growth is certainly tangible and noteworthy, there are also reasons to worry about its solidity and sustainability. In several respects, in fact, growth looks uneven and unbalanced. By looking at output, we are able to show that growth across sectors has been profoundly uneven over the years, at least since independence. This has had deep implications in social terms, as a large share of the population in Mozambique still depends on agriculture. On the demand side, by looking at consumption patterns and income distribution, we show that economic growth has been even more uneven, penalizing large shares of the population. It appears

¹ Republic of Mozambique, *Enhanced Structural Adjustment Facility (ESAF) Policy Framework Paper for April 1999-March 2002*, IMF, June 10, 1999.

that a very tiny minority has benefited from the higher living standards brought about by increased levels of income. Moreover, poverty still looms as a national tragedy of stunning proportions in international terms.

We then ask whether growth in Mozambique is somehow balanced, as only balanced growth can ultimately be sustainable. With the data available, it appears the capital accumulation has been very sluggish. The physical capital stock has grown unevenly, thanks to a skewed industrial policy and mixed results from privatization and liberalization. Investment still looks depressed, particularly in the agricultural sector, and its productivity low. Human and social capital have been depleted over the last fifteen years. Illiteracy rates have risen again, after the good first years of independence. Education—especially secondary and higher education—seems to be a luxury that few people can afford and even fewer think is worth investing in. Health and public goods are also largely underfunded. In short, all capital accumulation indicators show that growth has been largely unbalanced.

Finally, we look at the role of Government and economic policy. The State in Mozambique still looks too “big” and Mozambican Government still does “too much”. True, among “non market” failures (i.e. Government failures), type-1 failures—what the Government does and should not—are apparent. The State budget is still large, trade and market liberalization have been slow, and privatization has produced mixed results. However, type-2 failures—what the Government should do and does not—are no less grave. This is particularly true for the provision of public goods, like health and education. Now, while type-1 failures call for a reduction of Government’s role (through privatization and liberalization policies), type-2 failures call for a more effective Government action. International agencies and donors always put the blame on the first type, often forgetting that the lack of Government intervention to avoid the second type of failures is as important for sustained growth as privatization and liberalization.

In conclusion, economic growth in Mozambique still appears to be out of balance, besides being weak and uneven, and no one is blameless. The Government of Mozambique certainly bears some responsibility. A frequent excuse is that the Government (like others in Africa) has little room for maneuvering and making mistakes, constrained as it is by an ever-mounting debt and an ever-increasing need for aid. However, we show that the amount of aid that Mozambique has received in almost twenty years would have been enough to cover its net resource deficit, provided the State had been able to take care of its own expenses. The State has been systematically spending too much or collecting too little. But too little has been spent on education, health, infrastructure and general welfare. Aid has been wrongly targeted, and type-2 Government failures have grown larger amidst efforts to reduce the role of the State.

This study argues that economic growth in Mozambique is still weak and unsustainable and that economic policy must be reoriented to guarantee a more balanced and even growth across the economy. In line with Joseph Stiglitz’s (1998) criticism of the so-called Washington consensus policies, we argue that, as stable and steady economic growth is not warranted, Government action

should be inspired to broaden its sets of instruments and goals, and that international agencies and donors should help it adopt the consequent policies. The devilish spiral of debt, aid and conditionality certainly cripples Mozambique's Government autonomy, but it is only by broadening its sets of instruments and goal that Mozambique's economy will embark on a sustainable growth path. The paper is organized as follows. In the first section we discuss whether current growth is unprecedented. In the second section, we discuss whether current observed growth is even, while in the third section we discuss whether growth is balanced. The following section discusses the role of Government, while the last brief section concludes the paper with a few remarks.

1. Unprecedented growth?

Although several sources have pointed out the recent *unprecedented growth* of Mozambican economy, there is no consensus on the actual evaluation of such growth. The IMF's PFP for 1999-2002 (IMF (1999)) states that "during 1996-98, the economy grew at an annual average rate of 10 percent". The PFP reports an annual change in real *Gross Domestic Product* (GDP) of 11.3% for 1997 and 12% for 1998. In its 1999-2002 economic plan, the Government of Mozambique (GM) reports a real GDP growth rate of 11% for 1997 and 9.9% for 1998 (Government of Mozambique (1999)). The "economic overview" of the privatization program in Mozambique, presented by UTRE (the privatization unit of the Mozambican Ministry of Planning and Finance), states that "under PRES [Economic and Social Rehabilitation Program], and following the return to peace in 1992, Mozambique has experienced one of the highest average growth rates of any sub-Saharan African country" with an average annual growth rate of 8% from 1993 to 1997. "Actual growth in 1997 was 6.6% against a forecast 5.6%" (UTRE (1999)).

The World Bank *World Development Indicators* (WDI 1998) provides several interesting figures in this regard. In the "Country at a Glance" table, a 12.4 annual percentage rate for real GDP growth is reported for 1997. In the same report, the average annual percentage growth rate of GNP for 1996-1997 is said to be 13.3. *African Development Indicators* (ADI 1999), a joint publication of the World Bank and UNDP, reports a real GDP growth rate of 11.3% for 1997 and 11.8% for 1998. Finally, the World Bank 1999 *World Development Report* (WDR 1999) shows an average annual growth rate for total GNP of 11.3% for 1997-98. All these figures are presented in Table 1.

Figures for *Gross National Product* (GNP) are no less diverse. Total GNP for Mozambique for 1997, calculated using the Atlas method (WDI 1998), was 2,4 billions US dollars (ranking 122).² Conversely, ADI 1999 reports a value for total GNP in millions US dollars of 3,256.5 in 1997 and 3,731.1 in 1998, and a value of 3,121 for real GDP in 1997. WDR 1999 (Table 1) reports a value for total GNP in 1998 of 3.6 billions of US dollars. The GM's economic plan reports a value of total GDP in millions of US dollars equal to 3,521 in 1997 and 3,674 in 1998 (GM (1999)), but no value for GNP. Finally, the IMF's PFP reports a value for nominal GNP in millions of US dollars of 3,438 for 1997 and 3,893 for 1998. All these differences are summarized in Table 1.

² Yet, in Table 1.1 of the same WDI publication, Mozambique ranks 141.

Table 1. Mozambique GNP and GDP figures according to various sources

Sources	GNP				GDP			
	Real (growth rate)		Nominal (millions US dollars)		Real (growth rate)		Nominal (millions US dollars)	
	1997	1998	1997	1998	1997	1998	1997	1998
IMF PFP			3438.0	3893.0	11.3	12.0		
Government of Mozambique (GM)					11.0	9.9	3521.0	3674.0
WDI	13.3		2405.0		12.4			
ADI			3256.5	3731.1	11.3	11.8	3121.0	
WDR		11.3	3256.5	3600.0				3959.0

Per capita figures also are no less different according to the source. The IMF's PFP reports a value for real per capita GDP of 207 US\$ for 1997, while the GM's economic plan reports values (in US dollars) of 179.3 for 1996, 212.9 for 1997, and 217.2 for 1998. The WDI 1998 Atlas GNP ranking puts Mozambique in the 207th place (third to last), with 140 US dollars per capita in 1997, and in the 205th place with 690 "international dollars" (purchasing power adjusted) per capita. ADI 1999 reports for Mozambique a per capita GNP value of 90 dollars (Basic Indicator table 1.1) in 1997, and values of 160 (for 1996), 180 (for 1997), and 210 US dollars (for 1998) from the Africa Live Database Country Outline Table (ALD 1999). The same source reports per capita values of GDP for 1996, 1997, and 1998 of, respectively, 175.1, 206.7, and 233.6 US dollars. Finally, WDR 1998 (Table 1) shows a value for GNP per capita for 1998 of 210 US dollars, and an average growth rate for 1997-98 of 9.2%. GNP measured at PPP for 1998 is reported being equal to 850 international dollars.

Over a longer span, WDI 1998 reports an average real GDP growth rate of 4.9% for the period 1990-1997 and of -0.1% for the period 1980-1990. ADI 1999 reports an average real GDP growth rate of 4.2% over the 1990-1997 period, and an average GNP per capita growth rate of 2.2% over the period 1987-1997 (although this one shows a considerable variability over the years). The *Statistical Yearbook* of the Mozambican National Institute of Statistics (INE) reports values (in billions of US dollars) of 1,36 in 1987 and 1,74 in 1996, which amounts to an average growth rate of 2.5% per year (INE (1996)). However, in this case also there seems to have been a lot of variability.

If we take a longer perspective, we get a more thorough and interesting picture. However, a caveat is in order at this point. It must be stressed that to get a broader point of view, long time series are not easily available in the case of Mozambique. The most important sources mentioned above often fail to offer long time series (longer than a ten-year span) in a systematic way. Long time series in real terms (constant prices) are usually provided neither by the World Bank, nor by the IMF. No official publication from Mozambique (whether from the Government, the Ministry of Finance, UTRE or INE) provides any national account data in real terms. The task of digging through different sources, cutting and pasting compatible series thus remains to be done. In order to obtain a reliable and self-coherent, consistent long time series of Mozambique GDP in real terms, we have thus combined the recently created GDP in constant 1987 prices series (Nehru, Swanson

and Dubey (1999)), which goes up to 1992, with the GDP in constant 1987 prices series provided by the ADI publication (ADI 1999), which goes from 1988 to 1997. The real GDP series is shown in Figure 1, while its growth rate is shown in Figure 2.

Figure 1. Mozambique Real GDP at constant 1987 prices (billion Mts)

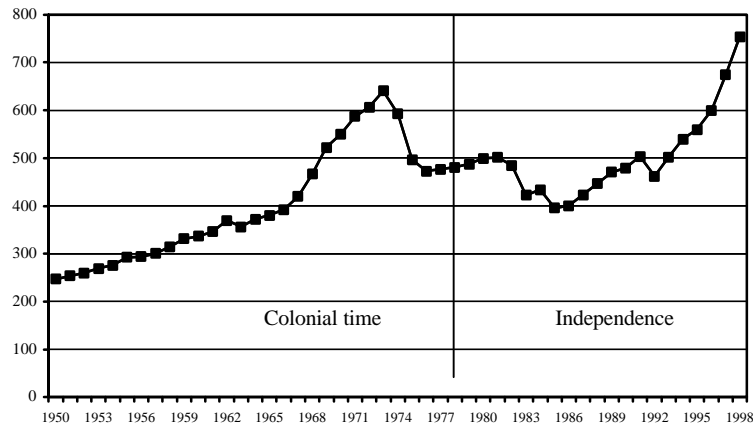
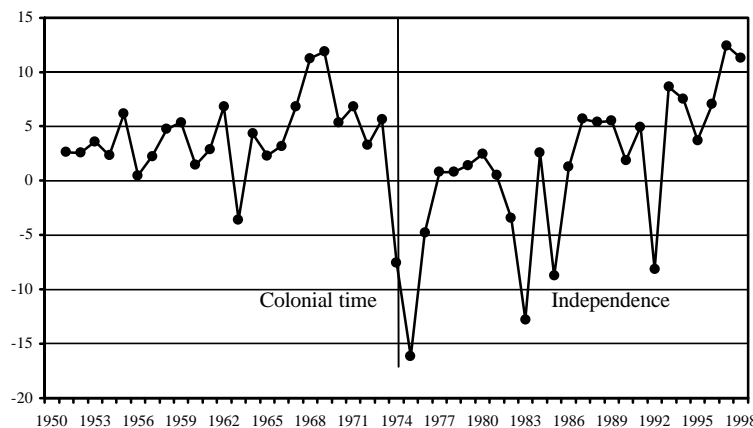


Figure 2. Mozambique real GDP growth rate (percent)



There are several points deserving attention. In the first place, it is true that Mozambique has recently witnessed an *unprecedented* economic growth, although only in relative terms. Growth rates have been greater than 10% *for the first time since independence*, as Figure 2 shows. But growth rates were already two-digits numbers in 1968 and 1969. In the second place, if we look at the *levels* of real GDP, it is true that they recently reached unprecedented values. And yet, it is also true that the upward trend before independence had long been interrupted. It has taken Mozambique 24 years to produce a level of GDP higher than the one last obtained in 1973. In the third place, it is the starting point of this upward trend that was very low. The Mozambican economy has undergone big changes since 1975. Prior to independence, the bulk of the Mozambican managerial and industrialist labor force were of Portuguese origin or descent. Independence was reached by war, and after the war the bulk of the qualified labor force engaged in productive activities quit the country, leaving Mozambique orphaned of its managers and industrialists. However, the country quickly picked up. From 1976 to 1981 the economy steadily grew, despite the new “African socialist model” and warring and troubled neighbors (Figure 2). The following years were

complicated by floods, droughts and a beginning internal guerrilla movement, thus bringing the country back to backwardness.³ It was only in 1987 was there an upturn that lasted until the end of the internal war in 1992.⁴ Then, 1993 was a negative year with 1994 seeing a return to positive growth rates. In summary, the upward trend in growth rates really started right after independence and in spite of the war positive growth has been maintained ever since. Thus, we can say that Mozambique is basically “back on track” that was set sometime ago. Its economy is producing some good results although quite belatedly and after some serious corrections.

How much of this *unprecedented growth* pertains to Mozambique and how much is it shared by its neighbors, that is, is a regional phenomenon? The picture provided by the World Bank’s *African Development Indicators* shows that in 1997 the whole Sub-Saharan Africa excluding South Africa (SSASA), had a GNP per capita of 308 US dollars, while Mozambique had a value of only 90 US dollars.⁵ Yet, the average growth rate for the 1987-97 period for SSASA was a dismaying –0.5%, while for Mozambique its was 2.2%. Table 2 shows a ranking of Southern African countries by per capita GNP levels and growth rates. As one can see, Mozambique runs quite unhappily in the last position, with a per capita GNP in 1997 that is less than 1/2 that of Tanzania (its northern neighbor), almost 1/4 that of Angola, less than 1/8 that of Zimbabwe, and 38 times lower than that of South Africa. Therefore, Mozambique’s very recent performance appears to be quite remarkable when compared with the other Southern African neighbors, if we exclude Botswana (Table 2).

Table 2. Southern African Countries by GNP per capita and Total Real GDP growth rate

Countries ranked by GNP values in 1997 (in parenthesis: rank by GNP per capita growth rate)	GNP Per capita				Total Real GDP		
	Atlas dollars			Growth rate (%) 1987-97	Growth rate (%)		
	1997		1998		1975-84	1985-89	1990-97
	(ADI)	(WDI)	(WDR)				
1. South Africa (9)	3400	3210	2880	-0.4	2.6	1.6	1.2
2. Botswana (1)	3260	3310	3600	4.4	11.4	10.3	4.7
3. Namibia (4)	2200	2110	1940	1.6	–	2.2	3.5
4. Swaziland (3)	1440	n.a.	n.a.	1.9	3.3	9.9	3.2
5. Zimbabwe (8)	750	720	610	0.0	3.0	4.2	2.1
6. Lesotho (5)	670	680	570	1.0	4.5	7.8	7.0
7. Zambia (10)	380	370	330	-2.3	0.2	2.3	-0.4
8. Angola (11)	340	260	340	-13.1	–	4.7	-1.6
9. Malawi (6)	220	210	200	0.5	3.2	1.9	3.5
10. Tanzania (7)	210	210	210	0.1	–	–	2.8
11. Mozambique (2)	90	207	210	2.2	-1.5	6.0	4.2

Source. If not otherwise indicated, ADI Basic Indicators Table 1.1, Gross Domestic Product Table 2.1 (ADI 1999) and our calculations

However, a look at the noticeable performance of Mozambique’s GDP shows that the recent growth rates enjoyed by the Mozambican economy are not “unprecedented”, at least in

³ Interestingly, real GDP in 1986 almost equaled the 1966 value.

⁴ For partial recounts of the independence years, see for instance Hanlon (1986), de Almeida Serra (1991), Kyle (1994), Tibana (1994).

⁵ Evaluated according to the Atlas method (ADI 1999).

regional terms. Over the 1990-1997 period, eight out of eleven countries in the area had a growth rate higher than 2% per year. Also, over the 1985-1989 period, Mozambique's real GDP grew at an average rate of 6% per year: as well as for most countries, growth rates in that five-year period were mostly higher than during the nineties (exceptions were Malawi and Namibia). Hence, at least from a regional perspective, Mozambique's recent economic performance seems in line with a more general positive growth trend.

Table 3. GDP and Population of Southern African Countries in 1997

	Total real GDP (US dollars)	Share of total GDP over total Southern Africa (%)	Population (millions)	Share of population over total Southern Africa (%)
South Africa	116730	74.9	38.3	28.0
Botswana	5690	3.7	1.5	1.1
Namibia	3108	2.0	1.6	1.2
Zimbabwe	5908	3.8	11.5	8.4
Lesotho	792	0.5	2.1	1.5
Zambia	3352	2.2	9.4	6.9
Angola	6648	4.3	11.4	8.3
Malawi	1643	1.1	10.3	7.5
Tanzania	7917	5.1	31.3	22.9
Mozambique	3959	2.5	18.5	13.5
Total Southern Africa	!Invalid Character Setting	100.0	136.9	100.0

Source: WDR 1999, ADI 1999)

Therefore, while it is true that Mozambique has improved, the road ahead still looks long and difficult. When we speak of *unprecedented growth*, we should keep in mind that the speed of economic growth (the growth rate) is important but so is the level of growth. Thus, if we look at the level of GNP per capita in Mozambique in 1997 (although figures are not quite consistent, see Table 2) it is clear that the country is far behind most of its neighbors (although distances had to be much greater in 1987 than they are now). Suppose, as an exercise, that Mozambique will enjoy that same 2.2% annual growth rate it had over the period 1987-97 for the next years ahead. Starting from a level of 210 US dollars it would take Mozambique 30 years to get to a per capita GNP of 400 US dollars. With a 10% annual growth rate, it would take Mozambique 15 years to reach Zimbabwe current per capita level of 750 dollars. The Mozambican population—one seventh of the whole 137 million people that live in Southern Africa—enjoys only 1/25 of total GDP produced in the area (Table 3). Only Tanzanian's condition is worse with one fourth of total population producing less than a twenty-fifth of total GNP: Mozambique is still a long way from real and sustained economic growth.

The burden of history is difficult to shed. Mozambique has done much to overcome its economic heritage of colonial rule and the scars of its more recent past. And yet it seems that the meager bequest received—including the poor infrastructure, the almost non-existing human capital, a destroyed industrial structure—still lingers on its economic performance. Mozambique was one of

the last country in Africa to obtain independence from colonial rule in 1975. And the Portuguese colonial domination was certainly one of the most backward, both in pure economic terms, and in political and institutional ones. In the aftermath of liberation Mozambique was left in terrible conditions—limiting our considerations to the economic heritage of colonial rule, from a mere macroeconomic point of view. In 1950, Portugal was still a poor country, with a real per capita GDP that in US dollar terms was only 13.5% of American GDP.⁶ In 1960, Portugal's per capita GDP had increased (in relative terms) to 18.7% of the American one. Interestingly, Mozambique's per capita GDP in 1960 was equal to 1145 US dollars (in 1985 prices), almost two thirds of the Portuguese one. Of Mozambique's Southern African neighbors, only South Africa and Namibia enjoyed a higher per capita GDP in 1960. Fifteen years later, in 1975, Mozambique conditions were no better. Portugal left a country with a GDP of 1184 US dollars per capita (in 1985 prices). That is, more than three and a half times smaller than the Portuguese one, whereas all of its Southern African neighbors, excluding Angola, Portugal's other colony, had improved (see Table 4)⁷. The relative economic decline then continued, and per capita GDP in Mozambique has continuously decreased ever since, both in absolute terms (until 1990) and in relative terms vis-à-vis its neighbors.

Table 4. Real GDP per capita in 1985 constant prices

	GDP	%	%	GDP	%	%	GDP	%	%	GDP	%	%	%
	in US \$	relative to US	relative to Mozambique	in US \$	relative to US	relative to Mozambique	in US \$	relative to US	relative to Mozambique	in US \$	relative to US	relative to Mozambique	relative to Mozambique
	1960			1975			1980			1990			1997
USA	9908	100	865.3	13712	100	1158.1	15311	100	1662.4	18073	100	2378.0	
South Africa	2185	22.1	190.8	3579	26.1	302.3	3496	22.8	379.6	3250	18.0	427.6	1472.3
Portugal	1857	18.7	162.2	4320	31.5	364.9	4982	32.5	540.9	7487	41.4	985.1	
Namibia	1761	17.8	153.8	3589	26.2	303.1	2900	18.9	314.9	2852	15.8	375.3	1024.9
Zimbabwe	998	10.1	87.2	1355	9.9	114.4	1207	7.9	131.1	1181	6.5	155.4	488.6
Zambia	946	9.5	82.6	1251	9.1	105.7	969	6.3	105.2	688	3.8	90.5	150.7
Swaziland	1240	12.5	108.3	2556	18.6	215.9	3041	19.9	330.2	4655	25.8	612.5	561.3
Mozambique	1145	11.6	100.0	1184	8.6	100.0	921	6.0	100.0	760	4.2	100.0	100.0
Angola	928	9.4	81.0	733	5.3	61.9	675	4.4	73.3				400.8
Botswana	525	5.3	45.9	1326	9.7	112.0	1929	12.6	209.4				1264.7
Tanzania	315	3.2	27.5	509	3.7	43.0	480	3.1	52.1	746	4.1	98.2	89.5
Lesotho	312	3.1	27.2	765	5.6	64.6	991	6.5	107.6	968	5.4	127.4	228.3
Malawi	380	3.8	33.2	509	3.7	43.0	554	3.6	60.2	519	2.9	68.3	98.3

Source: Penn World Tables, our calculations. For 1997, source: ADI, our calculations.

Mozambique has still to overcome big hurdles lingering from its past, including a long dispossessing colonial rule, a State run economy under a socialist regime that has become increasingly inefficient and inept and a savage internal war (initially foddered by the South African

⁶ See the Penn World Tables (Summers and Heston (1991)). To give an idea, South Africa real per capita GDP in 1950 was equal to 2185 US dollars (in 1985 prices), i.e. 22.3% of the American one.

⁷ In other words, from 1960 to 1975 (when it had to leave Africa), Portugal had gotten richer whereas its Southern African colonies had gotten poorer.

apartheid regime). In conclusion, economic growth in Mozambique is on its way, but it still suffers from a series of negative factors whose lasting influence is difficult to eliminate. Today dim lights are not yet the stars that some Agencies would like to spot and put on the cover page as their success stories.

2. Even growth?

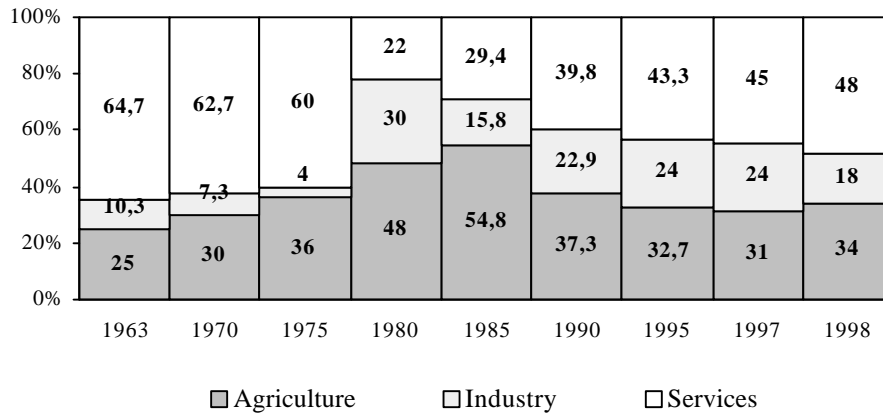
The data on the evolution of the structure of output, as well as on the evolution of the structure of demand, also show an interesting picture. They can reveal how *even* economic growth has really been over the years in Mozambique. Data on the structure of output and composition of demand are, once again, often missing, incomplete or incoherent. According to the WDI tables, the annual growth rate of real GDP has been equal to -0.1% over the 1980-90 period and to 4.9% over the 1990-1997 period, while according to the latest figures from the WDR tables, real GDP has grown at an annual 5.7% rate over the 1990-98 period.

Agricultural output has grown, in the two periods (1980-90 and 1990-97), at a 2.1% and 6.1% rate, respectively (WDI, 1998). Conversely, industrial output has decreased during the eighties at a -8.3% rate per year, while it has increased at a 9.1% annual rate in the second period. As a consequence, the output of the service sector increased by 19.5% per year in the first period and only by 2.2% per year in the second period.⁸ If we look at the *composition* of GDP we can see that from 1980 to 1998 the contribution of the agricultural sector has gone from 48 to 34 percent of GDP, that of the industrial sectors has gone from 30 to 18 percent of GDP, whereas the share of the service sector has increased from 27 to 45 percent of GDP (Figure 3).

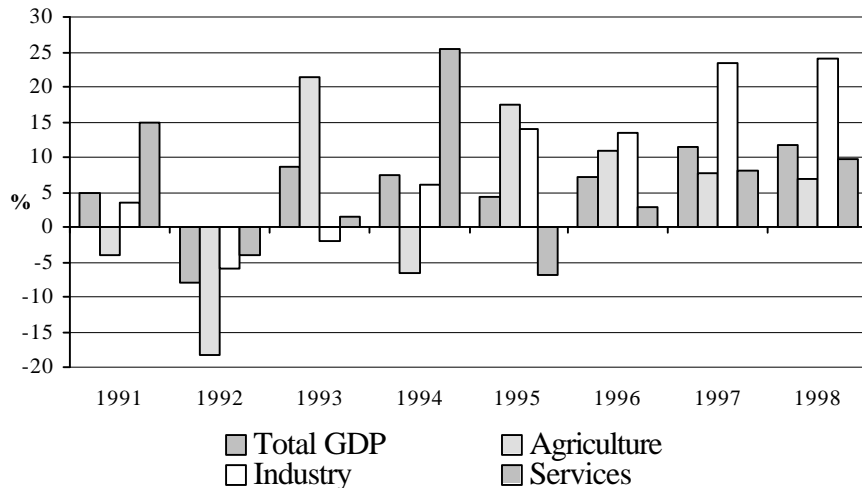
Mozambique is mostly an agricultural country, with vast natural resources and plenty of arable land. However, although exploitation of the overseas provinces for the production of staples was an objective of Portuguese colonial policy, this policy was never successful.⁹ In 1963, for instance, only 25% of Mozambique gross domestic product came from agriculture, while two thirds of GDP were from the service sector (DNE 1985). Interestingly, at that time, Mozambican product almost equaled a third of Portuguese GDP. In 1970, agricultural output in Mozambique rose to 30% of total GDP, while in 1975 it took up more than 36%. In 1980, agricultural output amounted to 37% of total GDP, in 1985 it had risen to more than 54%, in 1990 it was back to less than 40% (DNE 1994), while in 1995 it was no more than 32.7% (ADI 1999). The data we have on land use show that the percentage of land under permanent crop has always been a very tiny portion of total land area (it was 0.3% in 1980 and it still was in 1996). The percentage of irrigated land over total cropland has gone in fifteen years (from 1979-81 to 1994-96) from 2.1 to 3.4. The number of actual hectares of arable land per capita has decreased in the same fifteen years, going from 0.24 in 1979-81 to 0.19 in 1994-96.

⁸ Value added for the three sectors shows similar behavior. Agricultural value added has grown at a 6.6% rate during 1980-90 and at a 4.8% rate during 1990-98. Industrial value added has changed with annual growth rates of -4.5% and 8.5% , respectively, in the two periods. Service value added has increased by an annual 8.1% rate in the first period and 5.1% rate in the second period.

⁹ See e.g. Vail and White (1980), Newitt (1981), Pitcher (1995), and Isaacman and Chilundo (1995).

Figure 3. Sector shares of GDP in selected years

Sources: DNE 1985, DNE 1991, WDI 1998, WDR 1999.

Figure 4. Sectoral growth rates and GDP growth rate in the nineties

Source: ADI 1999.

Clearly, the nature of agriculture production has changed over the years, although the great bulk of the Mozambican labor force over the long run has remained in agriculture (WDI 1998). Industrial production and services have also changed over the decades. In 1965, for instance, Mozambique exports amounted to 1.3 billion escudos (4.5% of GDP), of which 18% was cotton, 16% was cashew nuts, and 10% was sugar. In 1975, 8% of total exports was cotton, 15% was cashew and 11.3% was sugar. In 1995, 20% of total exports came from cashew nuts, 5.6% came from cotton, 5.7% came from sugar. The largely unproductive agriculture of the big plantations in the northern part of the country gave way first to the cooperatives and collective farms of the socialist era, and gradually to an increasing number of small farms and wage-labor farms in the recent years.

In almost 20 years, the crop production index (as measured from 3-year averages with base 1989-91=100) has gone from 109.4 back in 1979-81 to 126.1 in 1995-97 (WDI 1998). That is, during the eighties there has been no improvement in crop production (actually a worsening), and

only during the nineties has it gone up by more than a quarter. While the food production index has been stagnant for a decade (it was 99.2 in 1979-81) and has increased up to 119.5 in 1995-97, the livestock production index has remained dismayingly below the 1989-91 value, going from 82.6 in 1979-81 to 96.1 in 1995-97. Being Mozambique an agricultural country, whose main resource is arable land and whose population is overwhelmingly dependent on agriculture, the output growth picture looks pretty skew, with agriculture as the neglected sector.

After having looked at output, let us now take a closer look at labor productivity. As we already mentioned above, Mozambique has a vast territory potentially fit for agriculture, and it was largely exploited, at least in the last century, for the production of raw commodities.¹⁰ Yet, agricultural output, which has always been important, was never dominant in terms of total output although it always dominated exports. In the colonial economy, production of services (mostly transport and communication, i.e. shipping) and a largely unproductive agriculture were the major contributors to gross aggregate output. With the centrally-planned state economy of the socialist era, a big emphasis was given to industrialization as well as to collective and cooperative farming, with the effect of depressing small scale farming and rural household production. In the meantime, Mozambique lost its importance as a shipping deck for its inland neighbors (for various political reasons), which further depressed its small service economy. The dark war years accounted for the remaining blows to development: the national industry gradually declined, the service industry never picked up. After turning to market economy principles, things got better, and especially in the recent years the revival in the “corridor strategy” resounded the old catchwords of the port economy, though the promised rewards are still to come.¹¹

As yet, agriculture continues to absorb 83% of the labor force, which means that 83% of the working population contributes in producing about a third of national output (as of 1997). In 1970, the labor force in agriculture was 86% of total labor force (Table 5), while agricultural output was a little less than a third of total output: if this is what the World Bank indicators term “long term structural change”, we may say that things have not gotten much better in more than 25 years. Productivity in agriculture has steadily declined during the seventies and eighties at an average rate of -1.3% and -2.1% per year, respectively (Table 5). Over the whole period 1970-97, agricultural product per worker has declined at a rate of -0.66% per year, that is, in real terms, agricultural output per worker has gone in 27 years from 35,000 to less than 30,000 meticaïs. While in 1970 there were almost 4.7 million people working in agriculture, there were 7.5 in 1997 (with an average growth rate over the period of 1.75% per year). On the other hand, total labor force has grown at a higher rate over the period (1.89% per year), which implies that labor force in other sectors has grown much faster, although it has grown at a slower rate than population (2.13%), (which in turn implies that less and less people get jobs). Hence: growth in agricultural output was obtained through a labor force increase at the expense of productivity. From 1970 to 1997, total real

¹⁰ See e.g. Zeleza (1993). Interestingly, crop exports in 1897 were (in percentage terms) the same as in 1997!

¹¹ We are referring to the planned infrastructural projects of the Beira corridor (linking Zimbabwe to the coast) and the Maputo corridor (linking Transvaal to the Maputo bay).

GDP has increased at an average 0.76% rate per year, as opposed to the 1.08% rate of agricultural product. However, while GDP has picked up during the nineties, with an average 5% annual growth rate, agricultural output has plunged at a dismaying 1.9% per year.

Industry has gone through several structural changes since 1970. The big impetus given by the socialist industrialization policy shows up in the 15% annual growth rate of industrial output in the first decade of independence. The increase in industrial labor force during the seventies was also accompanied by an increase in productivity at a 12% annual rate (in 1980, output per worker in industry was ten times higher than rural output). The war and the demise of the centrally planned state economy then brought the industrial sector almost to collapse in the eighties (with an actual output growth rate of -4.5% per year): while the labor force in industry kept growing during the decade, productivity plunged by a -7% per year. In the nineties, things have gotten better: productivity is increasing at a satisfying 3.8% per year, while total output runs at an annual 5.7%.

The story about the service sector is equally telling. Independence, the socialist regime, and a series of international events¹² brought Mozambique to isolation in the region, with devastating effects on its “port economy” and shipping and transport sector. The whole sector gradually collapsed, and all the incoming labor force contributed to the fall in productivity (-10% per year). Over the eighties and especially over the nineties, the sector has gradually recovered. Output has steadily increased at a 3.6% per year in the 1980’s and at a 6.3% per year in the 1990’s. Productivity, on the other hand, has remained almost stagnant during the eighties, and only recently has picked up at a good 6.4% per year. Overall, a worker in the service sector today produces more than one and a half the amount produced by a worker in the industrial sector and more than 12 times the amount produced by a worker in the rural sector. Yet, the sector today employs less than a tenth of total labor force (and only 3% of working women).

In conclusion, although we do not have detailed data to analyze the sub-sector contributions to total GDP over the years, it is pretty clear that the bulk of overall economic growth in the recent years has come from the industry and service sectors. Yet, the rural sector still employs more than 4/5 of total labor force and 96% of the female labor force. If economic growth has to be sustainable and steady, it should certainly spread over to agriculture, and make the economic structure of Mozambique less uneven.

¹² Like the sanctions to Rhodesia.

Table 5. Agricultural output, labor force and agricultural labor productivity, selected years.

Year	1970	1980	1990	1997	Average growth rate 1970-97
GDP at constant 1987 local prices (million Meticaïs)	549,978	499,178	479,462	674,054	0.76%
Average growth rate over previous period		-1.0%	-0.4%	5.0%	
Total population	9390000	12100000	15707000	16600000	2.13%
Labor force (LF)	5432231	7000000	8515843	9000000	1.89%
Agriculture GDP % of total GDP	30	37	37.3	32.7	
Agriculture GDP at constant 1987 local prices (million Meticaïs)	164,993	184,695	178,839	220,415	1.08%
Average growth rate over previous period		2.1%	0.1%	-1.9%	
LF in agriculture (% of total LF)	86	85	84	83	
LF in agriculture	4671719	5950000	7153308	7470000	1.75%
Productivity in agriculture (GDP/LF) (meticaïs per worker)	35318	31041	25001	29507	-0.66%
Average growth rate over previous period		-1.3%	-2.1%	1.7%	
Industry GDP % of total GDP	7.3	35	22.9	24	4.51%
Industry GDP at constant 1987 local prices (million Meticaïs)	40,148	174,712	109,797	161,773	5.30%
Average growth rate over previous period		15.8%	-4.5%	5.7%	
LF in industry (% of total LF)	6.9	7.5	8.0	8.6	
LF in industry	373466	525525	678883	772920	2.73%
Productivity in industry (GDP/LF) (meticaïs per worker)	107502	332453	161732	209301	2.50%
Average growth rate over previous period		12.0%	-7.0%	3.8%	
Service GDP as % of total GDP	62.7	28	39.8	43.3	
Service GDP at constant 1987 local prices (million Meticaïs)	344,836	139,770	190,826	291,865	-0.62%
Average growth rate over previous period		-8.6%	3.2%	6.3%	
LF in services % of total labor force	8.9	8.2	9.5	8.9	
LF in services	482111	576975	813093	803880	1.91%
Productivity in services (GDP/LF) (meticaïs per worker)	715264	242246	234691	363071	-2.48%
Average growth rate over previous period		-10.3%	-0.3%	6.4%	
Population age 15-64	4656198	6000000	7569639	8000000	2.02%
Children 10-14 (% of age group)	42	39	36	33	
Female population (% of LF)	49	49	48	48	
Males in agriculture (% of male LF)	72	72	70	70	
Females in agriculture (% of female LF)	97	97	96	96	
Males in industry (% of male LF)	13	14	14.5	15.5	
Male LF in industry	360157	499800	642095	725400	2.63%
Females in industry (% of female LF)	0.5	0.75	0.9	1.1	
Female LF in industry	13309	25725	36788	47520	4.83%
Males in services (% of male LF)	15	14	15.5	14.5	
Male LF in services	415566	499800	686377	678600	1.83%
Females in services (% of female LF)	2.5	2.25	3.1	2.9	
Female LF in services	66545	77175	126716	125280	2.37%

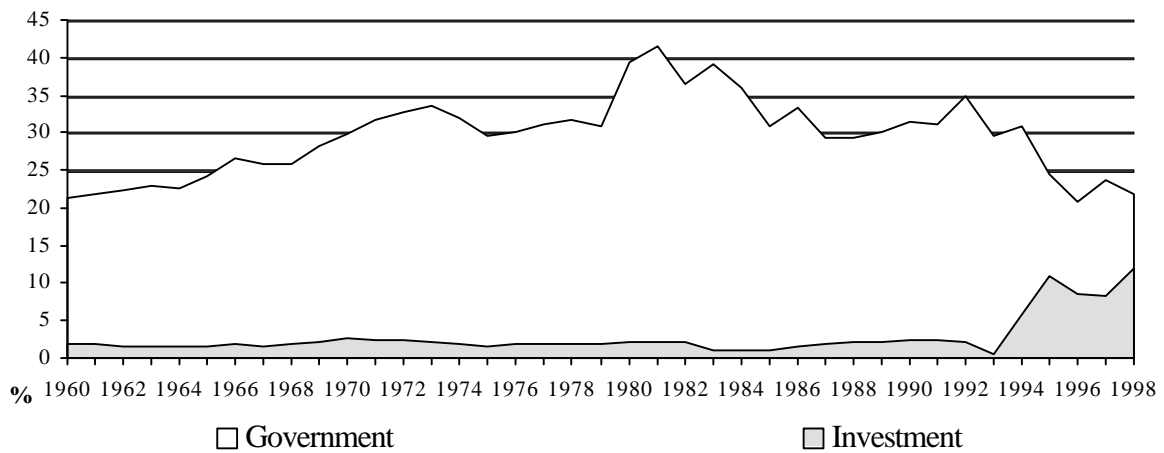
Source: ADI (1999), WDI (1998), our calculations.

On the demand side, also, structural changes have occurred. The structure of aggregate demand itself has quite changed over the years. In 1980, private consumption accounted for 94% of GDP, and only for 76% in 1997. General government consumption has also decreased, going from 15% of GDP in 1980 to 10% of GDP in 1997. Gross domestic investment has apparently increased, going from 8% in 1980 to 30% in 1997, although gross domestic savings keep being short of

investment, as they were –8% of GDP in 1980 and were only 14% of GDP in 1997. While exports have only improved a little bit (going from 15% of GDP in 1980 to 18% in 1997), imports have remained high (from 32% of GDP in 1980 to 34% of GDP in 1997).

Government expenditure, as a percentage of GDP, has steadily increased since 1960 (Figure 5) undergoing changes of regimes and reaching a peak during the socialist era (it is in 1981 that it topped the highest level ever — more than 40% — at the zenith of the socialist government effort in the field of public spending in education and health, as well as in state industrialization). After a slight decline, and the worse war years, it is only from 1992 (the end of the war) that the decreasing trend has consistently improved. This has been almost paralleled by a steady increase, after 1993 by a constant increase of private investment vis-à-vis GDP (Figure 5).

Figure 5. Shares of GDP (at current international prices)



Source: Penn World Tables, ADI.

What is also very interesting about the evolution of the structure of aggregate demand in Mozambique is the behavior of private consumption over the years. Overall, private consumption in real terms has declined in the last two decades, going from 2672 millions of US dollars in 1980 to 2092 millions in 1997 (WDI 1999). Thus, the average annual growth rate of private consumption has been negative over the 1980-90 period (–2.3%), and only slightly positive during the nineties (0.9%). Per capita private consumption, on the other hand, has steadily decreased over the whole period, showing a dismaying annual growth rate of –3.8% during the eighties and an annual growth rate of –1.5% during the nineties. The overall average annual growth rate over the 1980-1997 period of per capita private consumption has been equal to a saddening –2.3%.

As we said above, Mozambique's performance in per capita GNP in US dollars as valued according to the World Bank Atlas conversion method was pretty dismaying vis-à-vis the other Southern African countries (Table 6). However, since exchange rates do not always reflect international differences in relative prices, by converting per capita GNP values into international dollars using purchasing power parities, we can get a better estimate of what money can actually buy in each country and what each country can actually buy with what it produces. Values of per

capita GNP in PPP international dollars show a slightly different picture, from which it emerges that Mozambique seems actually less poor than Tanzania. Values for per-capita GDP show an even better picture, whereby Mozambique's product, in PPP terms, is actually higher than Tanzania's and Malawi's and close to Zambia's. The same is true for per capita private consumption, which in a way is the closest indication to a relative measure of standard of living. When measured at the official exchange rate, it seems that Mozambicans are actually spending very little, on average, in a year (and everybody in southern Africa is spending more). When measured in international dollars, we see that Mozambicans are actually buying "more stuff" with their money than people from Tanzania, Malawi, and Angola and almost as much as people from Zambia. Yet, all of these countries are on the very bottom of the spending scale (up to 750 dollars per year, i.e. a little more than 60 dollars per month). A better living standard is enjoyed by people from Zimbabwe and Lesotho (less than 1750 dollars per year), and a much better one is enjoyed by those from Namibia and Botswana (up to 2700 dollars per year) and South Africa (less than 5000 dollars). Mozambique trails sadly in the poor bunch, but those who can buy the least today are those from war-torn Angola.

Table 6. Selected Southern African Countries by GNP, GDP, and Private Consumption per capita, in US and international dollars

Countries	GNP per capita (1997)		GDP per capita (1997)		Private consumption Per capita (1997)	
	Atlas US dollars	PPP intl dollars	US dollars	PPP intl dollars	US dollars	PPP intl dollars
South Africa	3400	7190	3370	7752	2089	4806
Botswana	3260	7430	3358	8282	940	2319
Namibia	2200	5100	2024	4901	1113	2696
Zimbabwe	750	2240	776	2407	559	1733
Lesotho	670	2490	459	1759	376	1442
Zambia	380	910	409	962	319	750
Angola	340	820	670	1442	201	433
Malawi	220	700	245	705	208	599
Tanzania	210	620	221	578	183	480
Mozambique	90	690	207	927	157	705

Source: ADI Basic Indicators Table 1.1 (ADI, 1999), our calculations

To get a better and more detailed look at consumption, at this point, we have to use some different data sources. Statistical information in Mozambique is scarce, it is generally inconsistent and not comparable over the years, it is scattered and incomplete. Two major sources of information on private consumption and standards of living of the population are the Household Budget Surveys that were conducted in 1991-92 in the city of Maputo, in 1992-93 in the other 10 provincial capitals and at a national level (including rural areas) in 1996-97. Five years is not a long time interval to show deep differences, but it can more or less indicate a tendency (if numbers are straightforward).¹³ We considered the cumulative distribution of households by average monthly

¹³ Results from the three surveys were published in separate reports by DNE (1994) and INE (1999).

per-capita expenditure, corrected for inflation (i.e. consumption deflator). This was not an easy calculation to make, as expenditure categories were in current prices (by the hundreds of meticaïs).

In Table 7 we show the distribution of households by monthly expenditure according to the three surveys. We should recall that the results are not strictly comparable for various reasons, principally because the surveys were made according to different sampling methods. We should also keep in mind that the distributions are given for number of households, and not in per capita terms. Considering that the average household size varies with the standard of living, that can give a significant bias.¹⁴ In Table 7 we also calculated a “weighted average” of the shares in each expenditure category, according to the sampling size in the 1991-92 and 1992-93 surveys. Despite all these caveats, the figures showed in the table are pretty interesting. Between 1991 and 1993, 44% of population lived on less than 100,000 meticaïs spending per head per month (in 1997 prices), which amounts to approximately 8.6 US dollars or 38.8 international dollars (using a rough estimate of 5 members per household). Also, in the same period, almost 90% of the whole population had monthly expenses per head lower than 300,000 meticaïs (in 1997 prices), that is, roughly 25.8 US dollars or 116.3 international dollars. The comparison with the 1996-97 survey shows a slightly better distribution, as the share of the population spending 300,000 meticaïs per head is now reduced to 64%. However, the differences between the urban and the rural areas are striking. More than 54% of population in rural areas still lives with less than 100,000 meticaïs spending per head per month, and 97% of population lives with less than 300,000 meticaïs per head per month. In a way, it seems that in the rural areas, people are still five years behind in terms of standards of living.

Two more figures are worth considering from these Household Budget Surveys: earnings and expenditures. While the average estimated monthly income per head for 1991-93 was equal to almost 88,500 meticaïs (7.7 dollars) for Maputo and 69,900 meticaïs (5.8 dollars) for the other major cities (expressed in 1997 prices), the national estimated average monthly income per head for 1996-97 is equal to 123,647 meticaïs (10.7 dollars). Monthly spending per head, on the other hand, has been estimated in 113,600 meticaïs (9.8 dollars) for Maputo and 105,600 meticaïs (9.1 dollars) for the other major cities, for 1991-93, and in 152,000 meticaïs (13.1 dollars) for the whole country for 1996-97. This corresponds to a value of 150,000 meticaïs (13 dollars) for the rural areas and 200,000 meticaïs (17.3 dollars) for the urban areas.

In conclusion, households seem to spend more than they declare they are earning¹⁵ and enjoy a better standard of living in the cities. In rural areas, people seem to be living in pretty indigent conditions and stunningly low consumption patterns. These levels of consumption have brought to an estimate of an *index of incidence of absolute poverty* of 69.4% of population

¹⁴ According to the 1996-97 survey, the average number of members per household in the lowest expenditure quintile in urban areas is 6.2 and in rural areas is 6.3, while the average number of people in the highest expenditure quintile is 5.0 in urban areas and 2.7 in rural areas.

¹⁵ Supposedly, these earning figures also include an estimate of (implicit) rents or property income as well as self-consumption.

(headcount index), equal to 71.3% in the rural areas and 62% in urban areas (Ministério do Plano e Finanças (1998)). Yet, if we consider that still 83% of the labor force is in the rural sector, we can certainly presume that the vast majority of the population lives far below that level of GDP per head of 206.7 US dollars accounted for Mozambique as a whole. Economic growth is not affecting the population evenly, and the distribution of perspective wealth is something that, for the time being, is regarding only a small fraction of the Mozambican people. Hence, we can certainly say that if growth is not even from the output side, it is even less even from the demand side.

Table 7. Distributions of households by monthly expenditure categories, selected years

Thousand of meticais	Maputo 1991-92 survey	Rest of cities 1992-93 survey	Urban areas (weighted average)	Whole country 1996-97 survey	Urban areas 1996-97 survey	Rural areas 1996-97 survey
< 500	10.1	55.9	44.0	49.5	20.0	54.6
500-1000	37.4	31.4	33.0	33.8	24.4	46.1
1000-1500	25.1	7.7	12.2	8.4	19.6	6.3
1500-2000	11.1	2.5	4.7	2.9	8.8	1.7
2000-2500	6.3	1.0	2.4	1.6	5.9	0.4
2500-3000	3.1	0.6	1.3	0.8	5.0	0.4
3000-3500	1.9	0.4	0.8	0.7	4.0	0.2
3500-4000	1.4	0.2	0.5	0.6	2.3	0.1
4000-4500	1.3	0.1	0.4	0.4	2.0	0.1
4500-5000	0.8	0.1	0.3	0.2	1.0	0.1
>5000	1.3	0.1	0.4	1.7	4.0	0.1

Source: our calculations on data from DNE (1994) and INE (1999).

3. Balanced growth?

Distributional issues are always difficult to assess, particularly when the data available are not completely reliable. Yet, it seems undeniable that Mozambique has still a long way to go to step on a sustainable and steady growth path. As we have seen and argued above, Mozambique recent economic growth has been *unprecedented* only in relative terms and has been pretty much *uneven* across sectors and in terms of aggregate demand components. If growth has to be sustainable and lasting, it has to be *balanced*, both in economic terms—all the components that contribute to national product have to grow accordingly—and in social terms—no permanent social exclusion can coexist with balanced growth—. Balanced growth is necessary in order for growth to be sustainable and lasting. If any component of national income, or output, grows too much at the expense of other components, not only will the economy step off the steady state growth path, but it will stop growing altogether, generating dangerous economic and social imbalances.

When looking at the disappointing economic performance of African countries in the last twenty-five years or so, it is easy to conclude that all the recipes have basically failed. Development aid has long been ill-conceived, and most theories about “the engines of growth” and the policy implications thereby derived have proved wrong. Clearly, there is no one single cause for this generalized failure, and explanations abound. The culprit changes with fashion and over long periods the hunt for the guilty party has produced several victims. In turn: first came the colonial

ruling powers and their exploiting economic—and political—regimes. Then came the socialist and Marxist ideologies that inspired cohorts of Third World leaders who have blindly imposed unapt and unsuited—besides being illiberal—regimes to deprived and hopeful populations. Then next came the overwhelmingly devouring State that has suffocated vital economies all over Africa, instead of letting the market develop by itself and “unleash the seeds of economic growth”. Finally came the unjustly penalizing stabilization programs that have made the already difficult conditions of highly indebted countries barely bearable. Nowadays, the hunt seems to point to corrupt regimes who take advantage of the good will of donors and stabilization programs, without enforcing the rule of law and accountability, and the catch word has become that of *governance*.

Still, in order to evaluate whether economic growth—or economic performance, for that matter—is balanced and well geared (and well guided), we have to try to distinguish the role of the different actors. In the case of Mozambique, the play is complicated, and there are several characters to account for. Besides, data are sparse and not abundant, and it is often difficult to dig into the sources to identify root causes. Let us begin with some recent aggregate data and evaluate them from an economic policy perspective. We start with investment.¹⁶

Private investment has only recently picked up a little (Table 8), although public investment still swallows a considerable share of GDP. Also, foreign direct investment is increasing considerably every year. On the other hand, gross domestic savings are still far too short of domestic investment, the difference being now reduced to a -9.8% of GDP (in 1991 savings were still a negative fraction of GDP and the difference between domestic savings and investment was equal to -15% of GDP). On a large scale, industry seems not to be given, as yet, the attention needed for serious development.¹⁷ This can also be seen by looking at energy consumption in Mozambique. In 1980, electric power consumption per capita was equal to 369.7 kWh (ADI 1999), a third of Zambia and Zimbabwe’s consumption and a tenth of South Africa’s. While the annual average from 1975 to 1984 has been of 109 kWh, from 1985 on it has been constantly around the 50 kWh per year (in 1996, energy consumption per capita was about 76 kWh). Over the period 1980-96, the average growth rate of energy production has been -19.3% per year. Per capita annual consumption, on the other hand, has increased in Zimbabwe (765 kWh), Zambia (560 kWh) and South Africa (3719 kWh). Commercial energy use, too, has been decreasing between 1980 and 1996 (WDR 1999): use has gone from 8386 to 7813 in thousand metric tons of oil equivalent. In per capita terms, use has gone from 693 to 481 kg of oil equivalent. Net energy imports (over commercial energy use) have gone from -2% to $+7\%$ (Mozambique, who used to export, has now become net importer of energy, after the shutting down of several dams).

¹⁶ On the role and importance of investment, gross fixed capital formation and (physical and human) capital accumulation in economic growth in developing countries, see e.g. King and Levine (1994), Fischer, Hernández-Catá, and Khan (1998), Nehru, Swanson and Dubey (1999).

¹⁷ If we exclude the few big industrial development project whose overall impact in terms of employment seems negligible, whereas their impact on output will be felt only over the next five to ten years.

Table 8. Economic growth indicators (recent years)

	1991	1992	1993	1994	1995	1996	1997	1998
GDP per capita	173.1	133.1	140.2	147.0	151.2	175.1	206.7	233.6
Gross domestic investment (total) as % of GDP	16.0	15.6	12.7	19.8	22.8	19.1	19.1	21.1
Gross private investment as a percentage of GDP	4.7	2.8	0.4	5.8	10.8	8.6	8.3	11.9
Gross public investment as % of GDP	11.4	12.8	12.3	14.0	12.0	10.5	10.7	9.1
Foreign direct investment as % of GDP	0.9	1.3	1.5	1.5	1.9	2.6	1.9	5.4
Private sector: share in total domestic credit	117.7	175.5	323.1	222.2	266.0	639.6	462.7	571.5
Gross domestic savings (total) as % of GDP	-11.2	-17.2	-22.4	-13.9	-1.9	-1.6	1.6	1.2
Ratio of M2 to GDP (%)	24.9	32.0	32.4	28.5	26.5	20.9	20.9	20.8
Revenue, excluding cap. Grants (% GDP)	16.6	20.3	18.5	17.8	15.0	13.8	16.0	15.4
Fiscal balance, excluding cap. Grants, (% GDP)	-10.1	-10.0	-11.0	-13.2	-9.3	-7.1	-7.5	-6.4
Capital grants, as a % of GDP	7.0	7.3	7.4	7.8	6.1	4.2	4.9	4.0
Fiscal balance, including Grants (% GDP)	-3.1	-2.7	-3.6	-5.3	-3.2	-2.9	-2.6	-2.4
Revenue, incl. all grants (% GDP)	23.6	27.6	25.9	25.6	21.2	18.0	21.0	19.5
Expenditure, as % of GDP	26.7	30.3	29.5	30.9	24.4	20.9	23.6	21.8
Government efficiency in resource management	-14.2	-16.5	-15.5	-19.2	-13.0	-10.1	-11.9	-10.5
Government wage bill as % of recurrent budget	22.1	18.8	20.5	16.6	22.6	23.6	22.1	24.6
Total tax revenues as a % of GDP	10.6	12.1	12.7	10.4	10.4	9.9	10.7	10.5
Total tax revenues as a % of total expenditures & net lending	39.8	39.8	43.1	33.7	42.5	47.6	45.2	48.3
Capacity for resource management	-14.2	-16.5	-15.5	-19.2	-13.0	-10.1	-11.9	-10.5

Source: ADI 1999.

In conclusion, Mozambique seems to be investing too little in physical industrial capital. Moreover, not only is its physical capital stock growing slowly, but its human capital stock also is lagging. Investment in education was one of the first national priorities on the policy agenda of the Mozambican Government in the aftermath of independence. Portugal colonial rule had, in fact, left a country with a stunning 93% illiteracy rate (DNE 1985). Education policy began to pay quickly, as by 1980 the illiteracy rate had fallen to 72%, and gross enrollment in primary school was an amazing 99%. However, the internal war¹⁸ and the crumbling of the centralized state system produced their dire effects in the years to come. In 1997, a big 60.9% of the population was still illiterate (INE 1999).¹⁹ In 1996, gross enrollment ratio in primary school was down to 60% of relevant age group, and only 7% for secondary school (WDI 1999).

If investment is still low and human capital accumulation lacking, infrastructures are no better. Overall, the State has been able to guarantee some improvement in the living conditions of the population, but much remains to be done, particularly in the rural areas. The percentage of population that has access to safe water has increased from 9% in 1982 to 24% in 1995. Yet, all of Mozambique's neighboring countries have higher values.²⁰ In 1995, only 23% of the whole Mozambican population—and only 68% of urban population—had access to sanitation (in 1982 it was only 10%),²¹ only 32% of pregnant women would get a tetanus vaccination (in 1995-97) and

¹⁸ It is acknowledged that the RENAMO guerrilla was purposely targeting schools and hospitals to weaken the FRELIMO Government's popularity (see, for instance, Hanlon (1991)).

¹⁹ According to WDR 1999, the adult illiteracy rate in 1997 was 43% for the male and 75% for the female population.

²⁰ In Tanzania, the poorest of the neighbors, that percentage goes up to 49, in Malawi to 60, in Zambia to 53, and in Zimbabwe to 77 (data are for 1995 (WDI 1999)).

²¹ In Tanzania, that percentage for 1995 goes up to 86, in Malawi to 64, in Zambia to 51, and in Zimbabwe to 66 (WDI 1999).

70% of children get measles vaccination under 12 months. Main roads and rural roads need major improving, and the whole transport and communication system of the country still seems in the same conditions as it was at the end of the war. Between 1990 and 1997, for instance, the percentage of paved road over total has only increased from 17 to 19 percent (WDR 1999).

These limited and scattered data show how fragile economic development has been until now in Mozambique. The high growth rates in some sectors or parts of the economy correspond to isolated peaks of an otherwise pretty flat economic landscape, the isolated escapes of individual hares that pull a whole army of trailing turtles. It is thanks to the few success initiatives—hotels, some services related to the aid business, some banks, industry stars—that growth figures blink. And yet, the growth process looks unbalanced, with a neglected agricultural sector, a penalized distribution sector, and an almost forgotten education sector. When capital accumulation is so unbalanced, growth will not be sustained, and the country will be sooner or later be asked to provide for the lacking capital—physical and human. At that point, it might be late to catch up.

4. The role of Government

If economic growth is unbalanced, it is difficult to define what the Government's proper role should be and what the Government should do to guarantee balanced economic growth, especially given that the State has always been overwhelmingly present in all spheres of the economic and social life. As Goldsmith (1998) puts it, "governments can fail to meet their responsibilities in two ways commonly lumped together. Type-1 failures refer to activities that government should not undertake; Type-2 failures refer to activities that governments should, but do not, undertake" (p. 6). Basically, type-1 failures require reducing the role of the State, while type-2 failures require increasing and strengthening the role of the State. Type-1 failures are claimed responsible for most of the problems that SSA countries have faced in the last twenty years²² and yet type-2 failures, i.e. the State neglecting necessary actions, have until recently not been given much attention.

The recipe to cure type-1 failures embraced by the World Bank's and IMF's Structural Adjustment Programs (SAP) reduced to a simple formula: downsize the role of the State, increase the role of markets and of the private sector and integrate the national economy in the global market. However, the baby was often thrown away with the bath water: the Government's positive functions have come out weakened and its capacity diminished. SAP's gave way to a flow of foreign aid from international donors, and actually in many cases foreign loans have been used by State leaders as a last resort to avoid more radical changes and release power. By 1993, 38 African countries (out of 48) had adopted at least one SAP. Nevertheless, only six countries have been classified as having "significantly improved" their policies (WB (1994)). The World Bank and IMF, as well as international donors, have come under heavy criticism as their policies have supposedly

²² This is what Williamson (1993) calls the Washington consensus on economic strategy that gave rise to the Structural Adjustment Programs after 1981 and the Berg Report. According to this consensus, the State has grown too big, displacing the private sector, and is inappropriately occupying areas that could otherwise receive a better destination.

imposed too harsh conditions on economies already weak and battered, putting national governments under pressure and eroding national autonomy. Macroeconomic stability has had to be reached at the expense of social expenditures and welfare policies. But they have also been criticized for their leniency with aid, as often the party in charge of government would bear the cost of the heavy policy to guarantee political stability against the risk that unreliable opposition parties would seize the power. This, once the policy obedience was guaranteed, has ushered in corruption and “connivance” with ugly regimes (as in the Mobutu case).

The recent academic and political reflection on aid and economic growth concedes (often unofficially) that most approaches to post-colonial development have been mistaken. It is certainly true that SSA’s weak performance in the last twenty years has been partly due to government, i.e. *non-market*, failures. But, at a closer look, it appears that a lot of the recorded economic setbacks can be ascribed more to market failures than to government. Which brings us to the conclusion that it is not because governments have done too much, but because they have not done what they should to avoid market failures. Mozambique seems to be a case in point. If sustained, balanced economic growth has not yet happened, if the economy is not mature, it is not only because of the heavy burden of an overgrown and entrenched State. It is not only because the Government has failed to “shrink” giving “way to free market forces”. On the contrary, it is because markets often are defective, it is because the “Washington consensus” and the free market orthodoxy have frequently been a-historical and have not taken into account the lack of social and human capital, the absence of rules to support the markets and their functioning, the ignorance about practices that limit entrepreneurial capacity and capitalist development.

In the case of Mozambique, Government actions are still affected by type-1 failures. Government expenditure, as a share of GDP, is still sizeable (Figure 5): it was still more than 30% in 1994 (a general election year), and it has been reduced to 22% in 1998. Good proceeds from privatizations have accrued more than 120 million US dollars for the State,²³ but many large public enterprises have not been really put on the block (the Government wage bill has never been as high as in 1998) and in other privatized companies the Administration Councils are chaired by former State managers or functionaries appointed by the Government. Overall, the privatization process has affected more than 900 enterprises since 1989. Until the end of 1997, almost three quarters of these companies had been sold or liquidated, while less than 20 percent had turned into joint ventures. Although most enterprises have been bought by Mozambican nationals, the result of the privatization program are mixed, with only a marginal effect on State revenues. For instance, in 1994 (the year with largest net receipts from privatization), receipts from privatization amounted to just 1.4 percent of Government revenues and 0.2 percent of GDP (IMF (1998, Table 33)).

The State budget balance has recently marginally improved, although it still looms on the negative side. The *efficiency in resource management* indicator (ADI, 1999) measures the ability of the Government to finance its expenditures with its own resources, and is proxied by fiscal deficit

²³ Although UTRE report claims these proceeds to be in the order of 10% of GDP (UTRE (1998)).

(excluding grants) in percentage of GDP. As we see in Table 8, things in the recent years got pretty bad until 1994 and then started to turn better, but there is still need for improvement. Mozambique's mean external-trade tariff in 1997 was equal to 15.6% (with a standard deviation of 14.3%), much lower than Malawi (30%), Tanzania (21.8%) and Zimbabwe (24%), but higher than South Africa (8.7%) and Zambia (13.6%). Moreover, Mozambique's (recorded) integration with the global economy has actually deteriorated. Trade in goods, in terms of PPP-measured GDP²⁴ has gone from 15.7% in 1987 to 11.9% in 1997, whereas in terms of goods GDP²⁵ has gone from 73.6% in 1987 to 89.1 in 1997. Over the 1987-97 period, growth in trade less growth in real GDP amounted to -1.2%. Given this unimpressive economic performance, the limited reduction of the State role and the still unproven improved State capacity to manage its finances and the economy, Mozambique's credit rating still looms on the bottom tiers of all confidence indexes. For instance, the Composite ICRG risk rating and the *Institutional Investor* credit rating for Mozambique in February and March 1999 have been, respectively, 58.5 and 17.9 (WDR, 1999), some of the lowest of all SSA.²⁶

While type-1 failures (the Government does "too much") are still pretty evident for the Government's economic policy in Mozambique, type-2 failures are less easy to prove. These failures, as we said, refer to what the Government should do and does not, to the services and actions the Government should provide and does not, or that the Government does inappropriately. In a modern economic system, the natural role of the Government (and the State) should be to guarantee the rule of law. This involves regulating the proper and correct functioning of the markets, providing order, security, and a certainty environment, providing public goods with equity and redistributing income to correct for market failures, gearing the economy towards more efficient objectives when productivity is low or capacity is slack.

That an even properly decentralized free market would provide neither a certainty and legal environment nor the enforcement of collectively adopted rules and norms, is agreed by almost everybody. As the "free rider" problem demonstrates, there is always a need to design compliance mechanisms and since it is always necessary to foresee penalties for those who do not comply, some *authority* has to be put in charge of enforcing collective rules. The role of the State, or any authority for that matter, is to foster the provision of law enforcement and to guarantee a legal framework. However, it often happens that incompetence, dishonesty and political bias impair Governments' actions, especially when transparency and public scrutiny are lacking.

To evaluate Government's supply of public goods like law and order in Mozambique as reflected in the functioning of the economy, we can use as quantitative indicator the so-called measure of Government capacity given by *contract intensive money* (Clague et al. (1997)). This is given by the ratio of non-currency money to total money supply. This indicator reflects the idea that

²⁴ That is, the sum of merchandise exports and imports measured in PPP international dollars.

²⁵ That is, the sum of merchandise exports and imports divided by the current value of GDP is US dollars after subtracting value added in services.

²⁶ The Composite ICRG risk rating and the *Institutional Investors* credit rating for the other Southern African countries were, respectively: Angola (46.5, 11.5), Botswana (82.0, 53.5), Malawi (70.8, 20.4), Namibia (77.8, n.a.), Tanzania (58.8, 18.3), South Africa (68.8 and 45.8), Zimbabwe (52.0, 26.5) and Zambia (59.8, 16.1).

in a well-governed economy currency is only used for small transactions and so the proportion of transactions that rely on third-party enforcement (like the Central Bank or the Government) is large. In Mozambique, it is difficult to assess the exact figures for total money supply. With a narrow definition of money as (national) currency in circulation plus deposits (in national and foreign currency), the ratio between deposits and total money is more or less equal to 79%, as of December 1997.²⁷ However, this measure completely misses the large amount of dollars that is circulating in the country (which the Bank of Mozambique is obviously not accounting for in its financial accounts). A rough estimate of the amount of circulating dollars could be given by the proportion of foreign-currency denominated deposits accounts over total deposits (41%).²⁸ This would imply a ratio of non-currency to total money supply of 69% , which is in line with the rest of SSA countries (Clague et al. (1997)). On this basis, we could thus conclude that confidence in Government's capability, like in most African countries is still pretty low and certainly lower than in the rest of the world.

The evaluation of Government's supply of public goods like *social welfare goods* or "merit goods" is simpler than that of law, certainty and order. Besides being useful for a better functioning of markets and providing economic stability, the supply of social welfare goods is an important source of political legitimacy. However, it has to be balanced by the capacity of the Government to provide for its funding. The adoption of Keynesian policies by many SSA countries in the aftermath of independence in the sixties and seventies and the over-extended presence of the State—not just in centrally planned economies—led many Governments to take charge of social programs (in the fields of education, health and food provision) that they could not sustain for long (for various reasons). Once more, Mozambique is a point in case. The spending cuts that have been imposed by budget constraints in the late eighties have cast a negative light on Government willingness and ability to provide for those programs. Yet, the blame has fallen on international agencies and donors, who are supposedly choking weak economies and Governments' desire to do good to provide services, where Governments are not able to do the good they would like to. However, the evidence is not so clear-cut. In the first place, the social costs of reducing spending are almost never compared with the social opportunity cost of not doing so (going bankrupt, even for a State, has negative consequences...). Secondly, it is often argued that the cost of reducing spending is always borne by the poor or those at the lower end of the income distribution. Even this is not necessarily the case, since it depends on the actual policy measures taken by the Government.

²⁷ Circulating banknotes and coins amounted to 1544 billions of meticaïs, while total money and quasi-money amounted to 7414 billions of meticaïs

²⁸ In this case, total circulating money would amount to 2617 billions of meticaïs, giving rise to a total money and quasi-money of 8486 billions of meticaïs.

Table 9. Provision of social welfare goods

	1980	1997
Public expenditure on health (over GDP)	1.7%	11.4%*
Public expenditure on education (over GDP)	4.0%	
Population with access top safe water	9% ^b	24 ^c
Population with access to health services	10% ^b	23 ^c
Infant mortality rate (per 1000 live births)	145	135
Total fertility rate (births per woman)	6.5	5.4
Maternal mortality rate (per 100,000 live births)		1100 ^a
Prevalence of children malnutrition (over children of age under 5)		26% ^d
Under-5 mortality rate (per 1000)	223	201
Life expectancy at birth (male)		44
Life expectancy at birth (female)		47
Health care personnel	3457	7361 ^e
Health care units	934	990 ^e
Prenatal appointments and health services offered (thousands)	7635	8160 ^e
Deliveries	248	181 ^e
Population of age 5-24 (millions)	6.1	8.5 ^e
Enrolled students (thousands)	1472	1776 ^e
Total Enrollment ratio	24.1%	20.9% ^e
Illiteracy rate	72.6%	60.6%
Public schools (number)	5886	5553 ^e

Sources: DNE 1985, INE 1996, WDI 1999, WDR 1999, our calculations.
Notes: *) Expenditure for education and health together (for health alone it was an average 4.6% over the period 1990-97); a) 1990-97; b) 1982; c) 1995; d) 1992-97; e) 1997.

The provision of the major social welfare goods—health and education—in Mozambique has not particularly improved since 1980. Surely, Mozambique has had more than 10 years of a cruel and destructive internal war, fought by a guerrilla movement that purposely attacked those objectives that had made the Government popular during the first years of independence. Around the beginning of the eighties, the social effort of the Government reached its zenith, and yet in terms of budget it was relatively contained. Some improvements have been made recently, but only after a long period during which things had gotten worse again and the levels of social welfare provision had fallen back to colonial lows.²⁹ From 1980 to 1997 (Table 9), the illiteracy rate has improved, and so has infant mortality rate, but total enrollment ratio has decreased, and the number of public schools is smaller. The population with access to health services and water has increased, but there are only a few more health care units today than in 1980. Is the provision of health care better than before? Deliveries at public hospitals and health units have rather decreased and the total number of doctor appointments has only marginally increased. Conversely, the number of personnel and medical staff has enormously increased, and this alone might explain why public health swallows much more of the State budget than before. This does not necessarily translate into better health for more people. Improved access might simply be due to a much higher urban population than 20

²⁹ Social spending and its effectiveness reached a peak at the beginning of the eighties but from then on they kept declining. There were 5886 primary schools in 1983, and only 3381 in 1992. More than 1.33 million pupils were enrolled in primary schools in 1983, and less than 1.2 millions were enrolled in 1992. Likewise, there were 1380 functioning health units (hospitals, health posts) in the country in 1983, and there were only 1040 in 1992. Conversely, while only 3.2% of Government expenditure was devoted to education and health in 1983, 11.4% was spent in 1992 (data are from DNE 1985, and INE 1996).

years ago.³⁰ It is for those out there in the *mato* that conditions seem to be the same as ever. Nobody of those who moved to the cities during the war years seems willing to return, having experienced that even shanty towns may have a fountain for every 100 families and a *posto de saude* for every 10,000 people.

Provision of social welfare goods is also linked with redistribution of income and tax collection. On this issue we know that many Governments do not have a good record, because of incompetence, incapacity or collusion. A good fiscal policy can be exercised only if the Government authority is recognized and the public administration is able and willing to enforce the State law. In Mozambique, total revenues as a percentage of total expenditures have increased in the recent years but still remain low (Table 8). However, it is not only a matter of an inefficient bureaucracy unable (and unwilling) to collect taxes, nor it is simply a deliberate policy of avoiding to target particular interest groups. In a country like Mozambique, the State still appears to need to affirm its authority and those roles of provider of public goods we were discussing above. The State has not yet deployed over the territory all of its apparatus and the connection of norms, rules and dues that any institution carries. Deep down, at the low level of everyday life, the State is often not “recognized”. An equitable fiscal policy can only be enforced by a State that provides services in exchange for taxes. Failing to collect taxes and having to depend on other sources of revenue (like foreign aid) can only impair the provision of services.

The third example of type-2 failures is the lack of an industrial policy targeted at improving the overall productivity of the economy. A typical example, in this respect, is Mozambique’s adopting policies meant at keeping industrial giants and big plants even in conditions of near-bankruptcy. The history of industrial policy in Mozambique is still to be written, yet there are plenty of episodes and anecdotes that can be recounted. Many bankrupt industries, companies or banks are privatized, thanks to the injection of foreign capital, with the short-run aim of keeping occupation unchanged and often the undeclared objective of providing political clout for future projects or permissions. These are all well known examples of an ill-conceived industrial policy. As yet, data on privatizations, employment, company solvency and performance are not available, and Government information is not made public. Industrial policy is just an example of the failures and unevenness of economic policy in Mozambique. There is no policy aimed at stimulating the agricultural sector, particularly at the level of small household farming, as we pointed out earlier. Also, there is no policy aimed at re-equilibrating the economy at the local level, and some areas of the country, particularly in the center and the north, trail behind. The uneven targeting of economic policy contributes to the unbalanced growth.

In conclusion, economic growth in Mozambique still appears to be out of balance, besides being weak and uneven, and no one is blameless. The Government of Mozambique certainly bears some responsibility for what we have referred to as type-1 and type-2 failures. One of the most

³⁰ A large population has fled in desperate conditions (having been displaced by the war), often dispossessed and homeless.

common explanations of why this happens is that Governments in Africa have often very little room for maneuvering and making mistakes, constrained as they are by an ever-mounting debt and an ever-increasing need for aid. Mozambique is a good example. The country's total stock of debt³¹ has gone from 2.87 billion dollars in 1985 to 5.99 billions in 1997. For this reason Mozambique has been included in the list of *highly indebted poor countries* (HIPC) and has now been entitled to participate in the so-called HIPC debt-forgiveness initiative. The key indebtedness ratios for 1995-97 are some of the worst in SSA: the ratio between total debt stock and exports, for instance, was equal to 1217%; while the ratio over GNP was equal to 264%; the ratio between net present value of total debt outstanding and exports was equal to 708%, while the ratio between total debt service and exports was about 29% and that between interest payments and exports was about 12%.³²

Mozambique has received massive aid flows in the recent years, particularly after 1987's drastic change in economic policy and the subsequent adhesion to the IMF. Economic inefficiency and mismanagement, droughts and calamities, and the internal war, all led to the economic downfall of the eighties, to which the international donors have responded with increased aid flows, financial and technical assistance. Net Official Development Assistance (ODA) from all donors in Mozambique has been accumulating over the eighties, reaching a peak in 1992 in terms of GDP (Table 10).³³ After the peace accord in 1992, the aggregate net resource flow (excluding IMF funds) has continued at an average 860 million dollars per year between 1992 and 1996 (765 million dollars in 1997), while official flows (including grants) have equaled 824 million dollars per year between 1992 and 1996 (and 728 million dollars in 1997). On the other hand, total debt outstanding and disbursed (DOD) between 1991 and 1997 has been more than 12 times higher than exports.³⁴ Also, gross disbursements (official concessional long-term loans) have gone from 98 to 272 million dollars in the six years from 1991 to 1996.

It is difficult to treat the debt issue from a critical point of view. Mozambique is one of the mostly indebted countries in the world and, since it also has one of the lowest GNP per capita, it is easy to conclude that the challenge is daunting. The accumulated debt is frightening, as is the debt service. If one adds that the potential of the economy is weak (as measured by export and GDP growth), the conclusion looks bleak. This is what has motivated the HIPC debt forgiveness initiative. And yet, one wonders what has led Mozambique to such a ruinous slide. A higher debt means a heavier burden, and the heavier the burden the stronger has the economy to be to overcome it. And it is true that a few "bad" years at the beginning of the 1980's plus a savage and destructive

³¹ As reported by the World Bank *Global Development Finance* (GDF 1999).

³² Among other SSA countries, only Sao Tomé, Guinea Bissau and Sudan had a worst debt stock/export ratio, while the Congo Republic and Angola also had a worse debt stock/GNP ratio. Debt service over exports, on the other hand, was higher than 29% for 7 countries.

³³ In 1980, GDP in current prices was equal 2454 millions of US dollars (evaluated at the official exchange rate, see DNE 1985), while net ODA were 169 millions (6.9%). In 1987, GDP in current prices was equal to 1462 million dollars (DNE 1991), while net ODA was already 667 millions (45.6%). In 1990, GDP at current prices was down to 1443 million dollars, while net ODA reached 1007 million dollars (69.8%). For data on ODA, see ADI 1999.

³⁴ Most of the debt is still long-term debt (91%), increasingly multilateral (it is now 30%) and for the great part still bilateral (69%).

guerrilla war along the whole decade put Mozambique on its knees. But it should be remembered that the patient was already sick and weak.

This weakness can be demonstrated by looking at data on the trade deficit and the current account balance (Table 10). The trade deficit in 1980 was equal to 519.4 million dollars (21.2% of GDP), in 1985 it was up to 347.1 millions (10.2% of GDP), and it then kept increasing until 1994 when it reached 869 millions (59.4% of GDP). It is now equal to 581 millions (a little more than a quarter of GDP). Over nineteen years, the cumulated deficit has added up to 10,739 million dollars, while over the decade 1987-97 has totaled 7,333 millions. Similarly, Mozambique's current account balance, which has kept being negative all through the eighties and the nineties, in 1998 has reached the cumulated amount of 11.8 billions starting from 1980, and of 8.5 billions if we just limit to the 1987-97 period. One should also consider that, in these calculations, interest payments seem to be just a relatively small fraction: the cumulated sum paid from 1980 is of 2 billion dollars, i.e. 17% of total current account balance (CAB), of which 1.7 was paid after 1987. Consider also that the cumulated amount of grants received from 1980 is equal to 5.3 billions (4.5 of which were given after 1987), and thus the cumulated CAB totals 6.5 billions. Obviously, a country cannot be permanently in deficit, and yet, a country cannot be permanently receiving aid and grants, in a perennial inflow of money.

Table 10. Current account, aid, grants and loans, recent years

	1991	1992	1993	1994	1995	1996	1997	1998
CAB before capital grants (% GDP)	-29.6	-37.8	-39.2	-38.1	-28.3	-22.7	-17.8	-20.4
CAB before capital grants (millions US\$)	-738.4	-738.4	-824.5	-864.3	-676.8	-645.2	-610.3	-808.3
Net ODA as % of GDP	42.9	75.1	56.3	54.3	46.0	32.5	27.5	n.a.
Net ODA as % of GDP (current prices and dollars)	74.6	114.2	80.6	84.2	74.2	53.1	30.3	n.a.
Net ODA (millions of US\$)	1070.3	1468.2	1183.1	1231.2	1101.2	922.9	945.2	n.a.
Gross disbursements: offic. concessional long-term loans	98	187	155	221	219	272	338	n.a.
Debt service ratio ¹ , ex-post	22.6	22.8	32.9	30.1	34.8	26.0	18.2	31.0
DOD as % of exports ²	1292.0	1417.2	1397.6	1371.6	1228.8	1070.1	1046.8	1231.3
Present value of DOD (% exports)	757.3	770.4	721.9

Notes:

1) Calculated as the sum of debt service due on long-term debt, IMF use of Fund credit and interest payment on short-term debt, divided by exports of goods and services and workers' remittances from abroad.

2) Calculated as the sum of Debt Outstanding and Disbursed (DOD) on long-term debt, IMF use of Fund credit and short-term debt, divided by exports of goods and services and workers' remittances from abroad.

Source: ADI 1999.

If the cumulated sum of past deficits is striking, no less amazing is the cumulated sum of all past aid, grants and loans. Net official development assistance (ODA) from 1980 to 1997 totaled 11.5 billion dollars, while gross disbursements on official long-term loans by Mozambique have been equal to no more than 2.25 billions. Thus, with a total cumulated stock of debt of almost 6 billion dollars, Mozambique has been able to pay a little less than 40%. And yet, its trade balance

keeps worsening, as does the current account. There seems to be little room for miracles. But, the question naturally arises: where has all the aid gone?³⁵

As we said earlier, it is difficult to look through the data, especially in Mozambique where statistics are often incomplete. State budget figures, in a very aggregate format, are available for some years, and are an interesting source to start with. In 1985, the first year in which a reasonably comparable budget was released, current expenditure amounted to a 78.3% of total expenditure, while capital expenditure was devoted the remaining 21.7%. Current expenditure was devoted for 36% to defense (those were war years), 38.4% to salaries, education and health, and for only a tiny 0.2% to interest payments (de facto, there was no debt, still, at that time). Grants and transfers, in 1985, amounted to 9.8% of total expenditure, a good quarter of total State budget deficit. In 1987, current expenditure decreased to 57.4% of total expenditure, divided between defense (26%), salaries, education and health (17.4%) and interest payments (6.6%). Capital expenditure increased, mostly due to disbursements for external projects, as did total deficit. Grants raised to cover 45% of total budget deficit. In 1989, current expenditure decreased some more to 52.2% of the State budget, divided into defense (21.6%), salaries, education and health (18%) and interest payments (6.5%). Capital expenditure kept increasing, mostly to cover disbursements on loans for a 28.6% of the total budget. On the other hand, grants increased to cover 64.8% of total deficit. Thus, over this first period grants went from 9 to 65 percent of Government deficit.

In 1991, previous tendencies continued. Current expenditure decreased to 48.5% of total budget (18.6% for defense, 19.8% for salaries, health and education, 4.8% for interest payments), while capital expenditure increased to 51.5% of total budget (because of 37.3% for loan disbursements). Grants received amounted to 77.7% of total deficit. In 1994, the structure of the State budget was pretty much the same, although interest payments decreased to 3.7% of total expenditure and loan disbursements increased to 46.4% of total expenditure. Grants reached 72.2% of budget deficit, now 58.3% of total expenditure. In 1996, current expenditures were down to 45.6% of the budget (and interest payments up to 7%), but loan disbursements reached 44.7% of total. The deficit raised to an appalling 48.6% of total expenditure, of which almost 70% financed by foreign grants. Thus, over the 1990's, grants have covered almost three quarters of the budget deficit.

In Table 11 we can see a comparison between the cumulated sums of the various deficits (trade, current account and State budget), of loans and interest payments and of aid and grants received. Broadly speaking, the trade and current account deficits represent the difference between inflows and outflows of goods and services. In this case, we can see how poorly the Mozambican economy is performing and how the net inflow of resources keeps deteriorating. The State budget deficit, on the other hand, represents the difference between what the State is able to collect (in the

³⁵ The recent literature has been questioning the effectiveness of aid—also from a theoretical point of view—and the causes for inefficiency, with a vast empirical evidence. See e.g. Burnside and Dollar (1997), Guillaumont and Chauvet (1999), White (1992).

form of taxes and “credit” and loans from enterprises and households³⁶) and what the State spends. Apparently, what the State has been accumulating in interest payments and loan disbursements was more than covered by various forms of aid, whether grants or net ODA.

Now, as one can see, *the amount of aid that Mozambique has received in almost twenty years would have been enough to cover its net resource deficit, provided the State had been able to take care of its own expenses.* In other words, the State has been systematically spending too much or collecting too little. Yet, too little has been spent on education, health, infrastructures and general welfare. True, without loan disbursements, the State budget deficit would have been lower, and all the grants received would have made up the remaining difference. This would have freed for the private sector more resources coming in from abroad. Here we can see a typical distortion of aid policy and the development strategies of international agencies during the late eighties: to provide help to the Government, rather than to the country. If the Mozambican State has loans to pay, it is because donors and agencies have been lending money *to* the State rather than *through* the State *to* the country. And very simple economics reminds us how this, eventually, crowds out private investment.

Table 11. Cumulated sums of deficits, grants, loans, and aid

	Cumulated sum 1980-1997 million US dollars	Cumulated sum 1987-1997 million US dollars
1. Trade deficit	10739.3	7332.9
2. Current account deficit (excluding grants)	11775.3	8531.5
3. Grants	5293.1	4491.0
4. Current account deficit (including grants)	6482.2	4040.5
5. Foreign direct investment	257.1	255.6
6. Net ODA	11520.2	11351.2
7. Gross disbursements on long-term loans	2258.4	2257.4
8. Interest payments (in State budget)	472.1	450.3
9. Loan disbursements (in State budget)	2345.2	2345.2
10. State budget deficit	6945.1	3987.8
11. Grants (in State budget)	3124.3	2507.9
12. Current State expenditure (in State budget)	7572.2	3441.5

Sources. 1-5: Balance of payments statistics, DNE 1985, 1987, 1991, 1994, INE 1996; 6-7: ADI (1999); 8-11: State budgets, DNE 1985, 1987, 1991, 1994, INE 1996.

We know that the political economy of aid is rather complex. Mozambique, like many other African countries, is an example of a State whose grasp of the economy (and the country) is still firmly in its hands and yet many of its activities are “sub-contracted” to donors and agencies. From basic services to infrastructure implementation, the presence of international agencies abounds. Nevertheless, one wonders where has all that money gone. Simple calculations show that the accumulated total of ODA between 1987 and 1997 would have covered not just the cumulated State budget deficit, but would have been sufficient to “replace” the State current expenditure, that

³⁶ When the State issues obligations like Treasury Bills or similar bonds, that is a credit from the private and the household sector to the State.

is, to spend at least as much money the Mozambican Government has been spending. Selective spending would have guaranteed a much higher education, health and infrastructure budget... This hypothetical exercise is obviously rhetorical, as the natural objection could be that maybe things would have been worse than they are, had ODA not been brought to Mozambique. Yet, it seems too much money has been swallowed in the aid machinery and has disappeared.

If economic growth in Mozambique is still unbalanced and not robust, economic policy certainly carries some responsibility. Yet, as we said above, of the two types of failures it is not clear whether the Mozambican Government has been guilty more of the first or second type failure. International agencies and donors also share responsibility. If in Mozambique the State is too big, it is not just because of a socialist heritage, but also because it has been kept big by the aid machinery. Yet, everyone accepts the idea that the State is too big. A big State creates economic rents, which public administrators use to maintain their influence, thus generating abnormal rents.³⁷ This, too, is where money goes and disappears. It is part of the aid machinery.

Failures of the second type appear to be even more important. One political economy argument runs that interest groups can oppose and undermine the action of the State: the State fails inasmuch as it does not gain consensus.³⁸ However, in Mozambique interest groups do not just oppose, they drop out.. The State does not even get active recognition: the “losers” simply decide not to participate, by escaping control and operating in the parallel economy.³⁹ This raises the question of the *nature* and *origin* of the State in Mozambique (and in Africa more generally), where the State was born with the Nation, superimposed on a country that was never a unified national entity (politically, ethnically and culturally). Besides, the elite in power that led the FRELIMO to gain independence has been able to build on a success a socialist regime and survive the first democratic election. Like in other instances in Africa, the duration of a ruling class does not necessarily correspond to the stability of the political system.

In the parlance of political theory, Mozambique has a consensus regime, that nevertheless has gotten increasingly rigid, by “occupying” the State with recruitment mechanisms into the public administration that have favored the formation of a *rentier* bureaucracy. Additionally, the bureaucratic apparatus, for lack of alternatives, has created that *rentier* State that is seen as a deadweight to development. Some have argued that this is also due to the negative effects of aid. States who depend on foreign aid tend not to put too much organizational effort into raising revenue. Mozambique seems to be a point in case, and if its State budget has always been negative, it is also because of its low levels of revenues. As a rentier State, it does not have to establish any

³⁷ That the State is big, however, is not only measured in terms of percentage of its expenditure over GDP. In Mozambique, there is almost no initiative (particularly from donors and agencies) that is not carried by means, within or together with some Ministry or State Office.

³⁸ As Goldsmith puts it, “potential policy-losers tend to mobilize to protect themselves from adverse decisions, especially if the cost of doing so is lower than the benefit. If they cannot stop a policy from going against them, the losers will try to cripple the policy as a second line of defense” (1998, p. 17).

³⁹ The whole phenomenon of the *informal economy* includes survival strategies on a small scale as well as black market and undeclared activities on a large scale.

effective reciprocity with its citizens and feel compelled to provide real services in exchange for taxes. This results in a lack of accountability and responsiveness.⁴⁰ A rentier State ultimately ends up being ineffective in imposing its will (and policies) on society.

The role of foreign aid is therefore fundamental in the explanation of Government failures. Debt and low capacity are certainly a reason for Mozambique to ask for help and for donors to pledge assistance. But they should not become an excuse for Government neglecting its responsibilities or for the donors to take over the Government's role. All measures to improve the State capacity may turn into their opposite: downsizing personnel can have negative social effects, raising salaries will have negative budget effects, training staff might be an incentive to leave the State sector and go into the private sector.

5. Concluding remarks

As we said earlier, it is difficult to look through data and statistical sources, especially in Mozambique where, after the crash of the colonial administration and the introduction of the secretive methods of socialist government, statistics were released very parsimoniously and often in total lack of transparency. In this paper we have tried to explore in depth the available sources on Mozambican economy, seeking to assess the consistency and solidity of the recently observed economic growth in Mozambique.

As we have seen, there are reasons to think that economic growth in Mozambique is still unstable and unsustainable, as it looks uneven across sectors, regions and parts of the economy and mostly unbalanced. The responsibilities of the Government, the international agencies and the donors are also clear, and it seems they could work together in helping Mozambique to pull out of the aid-debt spiral, address the lack of proper Government intervention and take care of the deep structural imbalances of the economy.

The exercise in data analysis we have presented here should be seen just as a first attempt to dig into the nature of Mozambican economy, its development and historical background and its relationship with the evolution of Mozambican society. We know of the importance of the colonial past, the ethnical and cultural heritage, the diversity of institutional contexts in which the economy has been developing. As in most African societies, Mozambique is an interesting example of how different are the patterns of development and transition to a modern market economy. We should always bear this in mind in judging the performance of an economy which has been travelling at an incredible speed to adapt at the now dominant western standard with comparably good success.

⁴⁰ These attitudes are also generated by the hierarchical structure of the State bureaucracy, inherited from the colonial State and reinforced during the socialist regime. In a hierarchical structure, people at the top carry all the responsibility, while those at the bottom carry too little. The apparatus thus works slowly and ineffectively.

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