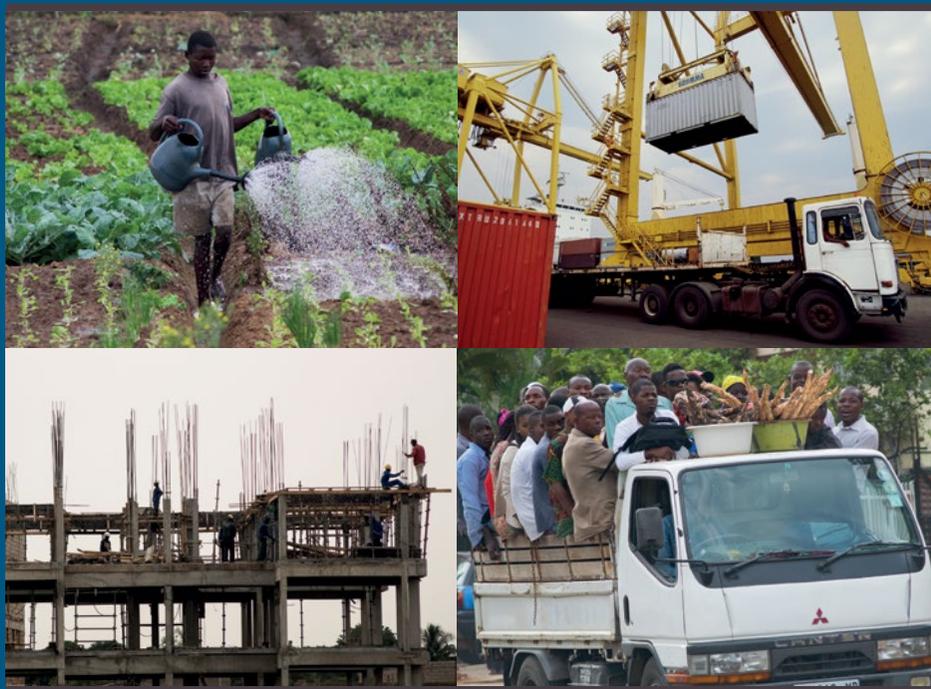


Questions on productive development in Mozambique

Carlos Nuno Castel-Branco, Nelsa Massingue & Carlos Muianga (editors)



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BACKGROUND PAPERS FOR THE DANIDA PROJECT,
'ADVOCACY AND RESEARCH FOR PRIVATE-SECTOR
BUSINESS DEVELOPMENT PROGRAMME' (PSBDP 2011-2015),
COORDINATED BY THE BUSINESS ENVIRONMENT FUND (FAN)

Carlos Nuno Castel-Branco, Nelsa Massingue and Carlos Muianga
(editors)



www.iese.ac.mz

Title

Questions on productive development in Mozambique

Editors

Carlos Nuno Castel-Branco, Nelsa Massingue and Carlos Muianga

Design and layout

COMPRESS.dsl

Proofreading

COMPRESS.dsl

Printing and finishing

Compress.dsl

Register No.

8378/RLINLD/2015

ISBN

978-989-8464-25-5

Print run

500

Editor's address

Av. Tomás Nduda 1375

Maputo

Mozambique

September 2015

ACKNOWLEDGEMENTS

This collection is a result of collaboration between the Institute for Social and Economic Studies (IESE) and the Business Environment Fund (FAN) and aims to transform the results of the research that has been carried out by the IESE in order to promote public-policy debate related to the development of productive capacities and business in Mozambique. The editors of this collection would like to thank the authors of the papers and the FAN team and its partners for their valuable and critical contributions and for the suggestions. Acknowledgement is also extended to business associations, the Confederation of Business Associations (CTA), unions, the media, and all who contributed to the production and diffusion of, and debate on, the selected topics. In particular, we would like to thank the following IESE partners for their continuing institutional support: the Swiss Agency for Development and Cooperation (SDC), the Royal Danish Embassy, the Ministry for Foreign Affairs of Finland, the Irish Department of Foreign Affairs (Irish Cooperation), IBIS Mozambique, and the Embassy of Sweden. Furthermore, this collaboration project was undertaken with the financial assistance of FAN.

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Introduction

In the last two decades, the Mozambican economy has grown at a relatively high rate, that is, at an annual average higher than 7%. It has thus been growing almost twice as fast as the average for sub-Saharan Africa, and it has continued to grow rapidly even with the prolonged international economic crisis which has affected the most developed economies over the past decade. Furthermore, it has become one of the three African economies which receives the most foreign direct investment (FDI) and foreign loans from the international financial system. Paradoxically, the productive base has narrowed and has become centred on an extractive core and associated activities, which has reduced the range of opportunities for business and decent employment and makes it difficult to develop linkages and articulations within the economy. The public debt has increased meteorically in the past decade, with significant impacts on the shortage and cost of capital to diversify investment and the productive base, and on the promotion of a financial sector with speculative tendencies. Public indebtedness, combined with the extractive trends of the economy, has weakened, or has prevented the development of, the capacity of the state to provide cheap, accessible and good-quality public services to promote expanded and diversified productive capacities oriented towards the reproduction of a multifaceted economy that can manage to feed itself and feed its citizens, can substitute imports effectively and can diversify the export base.

It is in this context that, over the past three years, the Institute for Social and Economic Studies (IESE), within the framework of the DANIDA project, Advocacy and Business Research of the Private Sector Development Programme (PSDP 2011–2015), coordinated by the Business Environment Fund (FAN), has attempted to derive, from its research, a series of background papers oriented toward promoting the debate among companies, the government, trade unions, and social organisations about the challenges of developing diversified and expanded productive capacities in Mozambique. The papers in the present collection, written by IESE permanent and associate researchers, were discussed at seminars held throughout the country, thus linking academic research with the public debate about public policy, business strategy, and the business environment in Mozambique. The papers have been organised into this collection so that they can be more easily accessible for study, debate and criticism, and can perhaps

contribute to helping to create productive and commercial bases that are more favourable to the broad economic and social development of the country.

Fewer than 20 researchers were involved in producing this collection of 19 papers. The collection is organised into four parts that correspond with the themes dealt with in the papers. The first part, comprising four papers, discusses the structural development framework of the national economy and its links with the development of productive capacities. The first two papers analyse more structural questions on the development of productive capacities, the third analyses the implications of public indebtedness for the financial system, and the fourth discusses linkages between large companies and local suppliers. The second part, with two papers, is focused on the trends of private investment and their implications for the economic structures that are emerging. One of the papers problematises development in the national economy deriving from general trends in private investment, while the other is focused on the problematic of Chinese investment.

The third part focuses on the problematics of rural development and contains nine papers. The first is a general discussion of the problematic of rural development in Mozambique from the perspective of rural industrialisation. Thereafter, two papers follow on the challenges in the relations between FDI and domestic capital in the context of irrigation schemes in Gaza province, two focus on specific crops, namely tobacco and cashew nuts, linked with the dynamics of rural transformation, one discusses local microfinance, one deals with questions of road transport, and two discuss employment, labour markets, and the living conditions of rural workers.

The fourth part includes four papers linked with the problematic of public services, local governance, and development of the rural and urban business base. These papers seek to analyse and understand to what extent the public-sector reforms and municipalisation affect the supply of public services and how these, in turn, affect the construction and legitimation of the state and the development of the private sector in Mozambique.

This collection is not academic in nature but is intended to contribute to building a bridge between academic reflections on the problematics of development in Mozambique and practical debate. The main idea is not to provide a list of solutions, but rather to structure the questions that can help make the debate on developing the productive and business base of the country more focused and useful.

Carlos Nuno Castel-Branco
Nelsa Massingue
Carlos Muianga

January 2015

Part 1

Structural questions on
productive development

BUSINESS AND PRODUCTIVE CAPACITY DEVELOPMENT IN ECONOMIC GROWTH AND INDUSTRIALISATION

Carlos Nuno Castel-Branco

Introduction

This background paper has been prepared in order to support the arguments and proposals presented in the main report on the consultancy brief carried out by a team of consultants for the DANIDA private-sector support programme.

The paper provides an overview of current trends and paths in respect of economic and industrial growth and investment in Mozambique, their macroeconomic impact, and the trends with respect to industrial policy. It then develops an analysis of why a business- and productive-capacity programme is necessary, and indicates the main issues such a programme should respond to. The paper concludes with some key remarks regarding donor experiences with private-sector development programmes.

Current trends/paths in respect of industrial growth and investment in Mozambique

Over the past decade, growth and investment trends in respect of the Mozambican economy have become narrower and more concentrated than ever. Gross domestic

product (GDP) and manufacturing value added (MVA) have been growing in real terms, but the sources of growth are increasingly narrower. Private investment has been very unstable on a yearly basis, but has reached significant levels over the last 13 years or so. It has also been narrowly focused and has tended to reinforce the narrow and disarticulated structure of economic growth. The dynamics of growth and investment have kept the Mozambican economy trapped in a situation where growth is unstable, destabilising and unsustainable. These, and other issues, are discussed in detail in this section.

Dynamics of growth and exports

The major sources of growth of GDP have been services (mostly trade, finance, transport and communications, tourism, and construction) and mega- and large projects in the spheres of industry, energy, minerals and agriculture (aluminium, natural gas, heavy or mineral sands, energy, cement, beverages [particularly beer], sugar and cereal milling).

With the exception of tourism, all the other service sectors are heavily concentrated in Maputo: about 70% of trade and transport and communications services, and 75% of financial services and construction activity are to be found in Maputo. Furthermore, almost 80% of investment in transport takes place around the big corridors (Maputo, Beira and Nacala), with emphasis on the Maputo Corridor that links Mozambique and South Africa. Construction is concentrated around industrial mega-projects, road programmes (with emphasis on the Maputo–Witbank toll road), and luxury housing around Maputo and Matola. Trade is fundamentally urban, and retail and rural trade networks are very slow to develop. Finance is either speculative or related to large projects linked with international capital. Thus, services are developing and helping to create economic dynamics that are narrowly based and that operate against the broadening of the development basis (INE various; BDM various; KPMG 1999; Castel-Branco 2002a, 2003).

Production and the exports of goods have similar trends to services, as is to be expected. Although cereals for household consumption are estimated to be the dominant form of agricultural production, dominant agro-industrial activities are sugar (for the domestic market, but also a very important export good), tobacco, wood and cotton production (with the last three all for export). These four agro-industrial products account for less than 15% of total industrial output, but represent more than 80% of agro-industrial output. Manufacturing output is heavily concentrated around aluminium, beer, cereal milling and soft drinks, which

represent more than 70% of total output. Aluminium, alone, represents some 48% of total manufacturing output (INE various; Castel-Branco 2002a, 2002b, 2003).

In 2002, exports of goods represented almost 70% of export revenue, more than double the revenue from services. The ratio between exports of goods and services has been, on average, 0.82 for most of the last three-and-a-half decades. This means that, roughly speaking, services usually represent around 55% of export revenue and goods 45%. However, between 1980 and 1983, and again in 2002, this ratio changed radically to 2.33, meaning that exports of goods represented 70% of export revenue in the period. In both periods, manufacturing industry became the most import source of export revenue.

In the early 1980s, this change was due to two factors: the oil crisis and the collapse of transport services to and from the hinterland. Mozambique used to export refined oil products, although it was a net importer of oil and oil products. The oil price boom of the early 1980s pushed the oil products share of manufacturing exports from 10% to over 30%. At the same time, the implementation of United Nations (UN) mandatory sanctions against the illegal UDI (Unilateral Declaration of Independence) regime of Ian Smith in Rhodesia, and the war against such regime, reduced the rail and port traffic to and from the hinterland very significantly. At the time of the application of the sanctions against the illegal UDI regime, port and rail traffic to and from Rhodesia through Mozambique accounted for more than half of all revenue from transport services in Mozambique (INE various; Wuyts 1989, 1984; Castel-Branco 2002a, 2002b, 2003).

In 2002, the dynamics of change in the export ratio were different, as the single-most important factor explaining such a change was the introduction of aluminium exports. After Mozal, the large BHP-Billiton aluminium smelter, started operations, Mozambique's exports of goods more than trebled. Mozal, which is responsible for 48% of total industrial output and 24% of MVA, also represents approximately 75% of manufacturing exports, 60% of exports of goods, and 42% of total export revenue of Mozambique (INE various; Castel-Branco 2003; Castel-Branco & Goldin 2003). Put together, exports of goods from fishing, agriculture, and all other industries (except aluminium) add up to no more than two-thirds of total aluminium exports.

Except for the dynamics of mega- and large projects, particularly of Mozal, industrial output and exports are stagnant, manufacturing output actually declined in 2003, and the MVA share of GDP, without Mozal, has fallen to the levels of 1971 (Castel-Branco 2003; Castel-Branco & Goldin 2003).

Dynamics of private investment

Private investment, which represented about 60% of gross capital formation in Mozambique between 1990 and 2003, is concentrated in a few mega- and large projects that are dependent on flows of external capital. Between 1990 and 2003, such projects or industries,¹ comprising not more than 20 firms, accounted for about 75% of all foreign direct investment (FDI) accruing to Mozambique, for 40% of national direct investment (NDI), and for two-thirds of all private investment. Natural gas and heavy/mineral sands (controlled by four large multinationals, two of which are South African) absorb almost 90% of all investment in minerals. Aluminium and energy, sugar, beer, soft drinks, cereal milling and cement (comprising some 16 firms, all of which are foreign-owned, including eight multinationals) absorb 94% of FDI, 50% of NDI, and 73% of all private investment in manufacturing (Castel-Branco 2002a, 2003, 2004).

Investment estimates, based on an analysis of 1 800 investment projects approved and implemented (or underimplemented) during the period 1990 to 2003,² also show that South African (SA) corporations were leading determinants of flows and patterns of investment in Mozambique. Directly, they were involved in 18% of all investment projects of the set of 1 800 and were responsible for about 40% of FDI and 15% of total private investment in Mozambique during the period. However, the total (direct and indirect) impact of SA corporations on private investment in Mozambique is much more significant than the direct impact: as a whole, the projects in which SA corporations are directly involved have absorbed 85% of all FDI accruing to Mozambique, 35% of NDI and 75% of total private investment. Additionally, 73% of all directly productive financial loans (from commercial, multilateral or other sources) are associated with these projects.

SA investment is mainly associated with the minerals–energy complex (MEC) of SA: aluminium and energy, natural gas, and heavy and mineral sands. Investment around the MEC is heavily supported by the small number of very large SA multinational corporations (MNCs) (such as BHP-Billiton), significant minerals and energy capital from around the world (such as Australia, the United Kingdom [UK], Ireland and Japan), SA public enterprises (such as Eskom and Sasol), and investment and development agencies (the Industrial Development Corporation [IDC], the International Finance Corporation [IFC], the European Investment Bank [EIB], and others) (Lutchman & Naidu 2004; Rumney 2004;

1 Aluminium and energy, heavy/mineral sands, natural gas, sugar, beer, cereal milling, soft drinks and cement.

2 Database kindly provided by the Centre for the Promotion of Investment (CPI), and checked through contacts with provincial directorates for the respective sectors.

Fine & Rustomjee 1996; Schoeman 2003; Daniel, Naidoo & Naidu 2003; Games 2003; Castel-Branco 2002a, 2002b, 2003, 2004).³

In addition, SA investment has expanded quickly into areas of oligopolistic or quasi-monopolistic competition in a bid to globalise by using the region as a 'trampoline' for world markets or simply as an expansion of the domestic market. Main areas of investment are: sugar (Illovo and Tongaat Hulett control three out of the four sugar estates, and the IDC helped a Mauritian consortium to control the fourth); beer (South African Breweries [SAB] controls all three breweries); soft drinks (the South African Bottling Company [Sabco] has control, through a local branch of Coca-Cola, of all bottling plants); cereal milling (Namib Management controls, or is involved in, the largest cereal milling complexes, except one); megatourism projects (Limpopo and Libombos); and mega-infrastructure (management of major ports, major toll roads, communication systems and industrial parks developed around anchor projects associated with the MEC). Tourism and infrastructure are developed around the concept of spatial development initiatives (SDIs), a SA public policy to expand the SA economy into the region. Industrial Development Corporation (IDC), an SA parastatal; International Finance Corporation (IFC), a member of the World Bank group; European Investment Bank (EIB). For sources: Lutchman & Naidu 2004; Rumney 2004; Fine & Rustomjee 1996; Schoeman 2003; Daniel, Naidoo & Naidu 2003; Games 2003; Castel-Branco 2002a, 2002b, 2003 and 2004.

Associated with the MEC and oligopolistic expansion, SA investment has also moved into dependent industry and industrial services.⁴ On the one hand, the MEC, the SDI and other large projects represent demand for certain industrial activities and maintenance and engineering services. SA firms were initially reluctant to move to Mozambique, as they could supply all services and goods from SA and did not know enough about the industrial capabilities in Mozambique. This led to a quick expansion of linkages between supplier SA firms, based in SA, and mega- and large projects in Mozambique.

In the meantime, Mozal's expansion and the starting or development of other mega- and large projects intensified demand for such goods and services. Thus, SA firms were quick to move and take the opportunity to expand into Mozambique. However, they are still reluctant to make a serious commitment and investment.

3 Industrial Development Corporation (IDC), an SA parastatal; International Finance Corporation (IFC), a member of the World Bank group; European Investment Bank (EIB).

4 The concept of dependent industrialisation is linked to the following characteristics: import dependency; dependency with respect to exogenous dynamics of industrialisation (including access to markets, technology and capital, product design, investment decisions, etc.); dependent partnerships (such as in the case of integration with oligopolistic international product and value chains); and lack of dynamic backward and forward linkages within the economy outside the mega- and large projects that have initiated the process. This pattern of industrialisation cannot be identified as import substitution (even when firms produce only, or mostly, for the domestic market), as it does not substitute but rather creates import pressures. True import substitution would involve backward and forward linkages that this pattern of industrialisation does not usually develop outside economic enclaves.

Usually, they relocated to Mozambique workshops and warehouses that stock parts and make small repairs, employ a very small number of workers, and involve very little fixed (and sunk) costs. Others have engaged in joint ventures with Mozambican firms, renting and, thus, taking advantage of the existing fixed capital, and making little and narrowly focused investment in upgrading some core capacities in order to provide specialised services for specific mega-projects. Almost all these firms are import-dependent, and a very large share of their imports comes from intrafirm and interfirm trade with SA suppliers.⁵

Thus, links with mega- and large projects have created dependent industrial capacities for the domestic market, but usually involving little commitment by the SA firms that have made the investment. However, as demonstrated by the capacities and number of firms involved, developing linkages with mega-projects could be one of the core pillars of a strategy to support business- and productive-capacity development in Mozambique. Given the type of capacity that has been developed, and which is concentrated in engineering and other services, such a focus of business- and productive-capacity development could help not only the firms involved, but also the business and productive dynamics as a whole, because it could help to provide capacities and services for all and reduce marginal costs of productive investment in Mozambique.

On the other hand, dependent business dynamics have developed around product chains controlled by SA or large MNCs: this is happening with the export of fruits and some basic agro-industrial products (honey, cassava products, animal food), in some areas of metal engineering in which SA firms provide a reputation and access to markets, in tourism-related activities, and others. On the whole, a very large proportion of existing and relatively successful (or, at least, not unsuccessful) small and medium firms have developed linkages with SA firms, some of them within the black economic empowerment (BEE) scheme (Lutchman & Naidu 2004; Rumney 2004; Schoeman 2003; Daniel, Naidoo & Naidu 2003; Games 2003; Castel-Branco 2004).

SA capital has long been a driving force in the Mozambican financial market. The literature on finance in Mozambique usually emphasises that the Mozambican financial system is controlled by Portuguese financial interests. This is only partly

⁵ According to Castel-Branco & Goldin 2003, some of the core industrial capacities and services developed around Mozal are as follows: *Engineering/manufacturing-industry firms*: Cometal-Mometal (pots, chimneys and pipes); Tubex (tools and spares); Kempe/Metech (maintenance of pot lines); Forjadora (containers); Kanes (spares, metal structures and maintenance); Agro-Alfa (repair of start-up equipment); MC Engineering (repair of start-up equipment). *Construction firms*: Marcleusa (electricity substation in the plant and acoustic barrier in the port of Matola); Construções Chemane (maintenance, water drains, removal of temporary buildings); SORADIO (electric installations and wiring, and repairs); and Wade Adams (housing construction and maintenance of buildings). *Industrial services*: TDM (phone and phone database network); EDM (shareholder and represented in Motraco); Strang Rennies Mozambique Consortium (SRMC) (export of aluminium); Diesel Eléctrica (suppliers and maintenance of hydraulic equipment); Interwaste (industrial waste removal); and Transaustal (employee transport). *Other services*: Eures Support Services (catering); Gray Security (manned security, reception, and armed response); Thsala Mozambique (catering and cleaning); Cinderella (laundry and uniform management); and Flor Real (landscaping earthworks).

true when one looks at the domestic financial system and abstracts from its international interactions. Worse still, this argument only holds if one abstracts from the relationship between finance, investment and production. In other words, Portuguese banks own most of the banks in Mozambique, and the larger banks from the point of view of domestic banking operations. However, the domestic banking system is responsible for less than 20% of financing of investment and production in Mozambique, and a significant share of their activity is limited to being an agency in channelling international capital flows. Most of the private capital invested in Mozambique over the last decade or so comes from SA and international financial institutions that also operate through SA banks. Thus, SA banks are far more important than Portuguese ones, but they used to operate mostly through direct relationships with mega- and large projects and firms rather than through a direct physical presence in Mozambique.

More recently, the SA banking system has started to expand, physically, into the Mozambican economy in line with the dynamics of FDI in Mozambique. Hence, one new commercial bank was created and two commercial banks were bought by SA banks over the last two years. Given their experience in financing productive activities and their superior financial linkages and muscle, SA banks may be in a better position to expand their domination of the Mozambican financial system and, therefore, strengthen the dominance of the key investment dynamics in SA that are influential in Mozambique: the MEC, oligopolistic competition, the SDI and associated, dependent industrialisation.

From the analysis of growth and investment dynamics, it seems that corporate strategies of SA firms (the MEC, oligopolistic globalisation, the SDI and BEE) are the main determinants of levels and patterns of capital flows into Mozambique, and of the magnitude and patterns of economic growth and trade. This has, of course, strong implications for the determination of how Mozambican businesses and productive capacities can be developed, and in what direction.

Macroeconomic impact of the current dynamics of growth and investment

Macroeconomic, productive and trade conditions in Mozambique are closely and dynamically related. On the one hand, productive and trade dynamics affect macroeconomic balances: employment, fiscal deficit, balance-of-trade and balance-of-payments deficits, savings, investment and growth. On the other hand, macroeconomic limits also constrain growth and investment dynamics. Finally, macroeconomic policy aimed at providing monetary balances through monetarist approaches contributes to shaping the patterns of investment and growth and

may not help to address the productive and trade dynamics that may affect the imbalances that monetary policies are trying to address.

Thus, any approach to developing business and productive capacities has to take into account the dynamic relationship between macroeconomic and productive and trade conditions, including macroeconomic policy. To do so, it should start by looking at the impact of current patterns of growth, trade and investment on macroeconomic conditions, and how macroeconomic policies affect macroeconomic, productive and trade dynamics. The macroeconomic-production/investment-trade nexus in Mozambique involves three main characteristics. Firstly, the productive base of the economy is heavily import-dependent, such that imports of investment goods are highly and proportionally sensitive to investment. Secondly, the export basis is highly concentrated and narrow and established around primary products – and up to 2001, was not elastic with respect to investment. Thus, investment and economic expansion have always been associated with chronic and increasing trade balance deficits. Therefore, every time the economy expands, the trade balance deficit increases to the point of crisis. Thirdly, investment is highly dependent on inflows of foreign capital. Thus, when investment and the economy expand, the capital balance becomes highly positive. In the short run, the capital balance surplus may offset some of the trade deficit generated by economic expansion. In the long run, if foreign inflows of capital are not continuous, capital repatriation and interest (and other investment services) payment will contribute to exacerbate the overall balance-of-payment deficit. As a result, the trade deficit is chronic, while the capital balance surplus is short- to medium-term. Thus, the lasting effect of fast growth is balance of payment imbalances (Castel-Branco 2002a, 2002b, 2003).

This general trend has been slightly modified recently because exports have become more elastic with respect to investment. This is only due to the export impact of Mozal (aluminium) and the forthcoming export impact of Sasol (natural gas). As mentioned earlier, the other sectors have had a very small impact on the increase in exports.

Mozal's net trade gains in 2004 were expected to be around US\$ 350 million, which would have reduced Mozambique's trade deficit by more than one-third. Between 1998 (when construction started) and 2003, Mozal's net trade gains were either negative or close to zero due to the high import intensity of construction and production and a larger and longer than expected fall in the world price of aluminium. As production and exports approach steady state at full capacity, and world prices recover and stabilise, net trade gains tend to become highly positive (Castel-Branco & Goldin 2003).

However, Mozal's impact on trade is not the only impact of Mozal on the balance of payments. Mozal also affects the capital balance and the balance of services through capital inflows (investment), payment in respect of investment services, profit, and wage repatriation, and so on. When the overall impact of Mozal on the balance of payments (BoP) is accounted for, net BoP gains are only about 30% of net trade gains. Furthermore, if one considers weak wage linkages (due to high capital intensity) and weak fiscal linkages (due to low wage linkages and high fiscal incentives) between Mozal and the rest of the economy, it is not very clear what the real macroeconomic impact of Mozal is, as very little of Mozal's net financial gains is retained by the Mozambican economy (Ibid). Additionally, there is the problem of export concentration: a 10% variation in the world aluminium price will immediately change export revenue by more than US\$ 80 million, which is more than the overall exports of the manufacturing sector (excluding Mozal). At the same time, the trade deficit will change by about US\$ 40 million. Between 2000 and 2002, the world aluminium price fell by 15%, such that only, in 2004, was Mozal expecting positive net trade gains. If BHP-Billiton adjusts output to a longer than expected fall in aluminium prices, export revenue loss will be even larger (Ibid).

Thus, leaving the solution of the macroeconomic-production/investment-trade nexus to mega-projects seems to be not only unwise, but also dangerous. First of all, the multiplier effects of such MEC projects are limited, unless they continue to expand (which is unlikely). Secondly, the import substitution effect of such projects is also very limited. For example, Mozal could reduce production-related imports by one-sixth at best, provided that the Mozambican economy can supply everything that is not electricity and alumina (which is unlikely to happen during the lifetime of Mozal's project). Thirdly, the overall BoP, wage and fiscal linkages emerging from such projects are very limited: a cereal milling or beverage firm producing 1% of Mozal's output pays far more taxes than Mozal.⁶ Fourthly, the economy becomes more volatile as exports become more narrowly based. In boom periods, the economy tends to suffer from 'Dutch disease', such that the exchange rate and the non-MEC productive basis become uncompetitive, domestic prices may go up, and external trade trends may actually become more chronically imbalanced. In periods of doom, the economy may lose at least the equivalent of

6 It can be argued that mega-projects usually implement larger social projects than other firms. Together, Mozal and Sasol, for example, spend a total of about US\$ 10 million per year on social programmes. However, this is less than half of what a 1% increase in turnover taxes of these projects would contribute to the state budget (these projects benefit from the largest tax holidays available in Mozambique due to their status as free industrial zones [FIZ]). Additionally, these mega-projects' social programmes tend to be focused on infrastructure-building: schools, health centres, roads, housing complexes, and so on. The management and operation of such infrastructure is, however, assumed by the government and translated into pressures on current expenditure. Thus, capital expenditure on social programmes by individual projects may well crowd out the ability of the state to sustain such programmes or to develop other social programmes. Therefore, social programmes would be better served if such projects pay more taxes.

the exports of the entire manufacturing sector (MEC projects excluded). Fifthly, policy and institutions will tend to develop around the dominant interests of the MEC and oligopolistic expansion, thus failing to systematically address the issues related to broadening the basis for growth, investment, trade and development (Castel-Branco 2002a; Castel-Branco & Goldin 2003).

In the short run, mega-projects can increase the elasticity of exports with respect to investment and have a huge impact on net trade gains, provided that prices are stable and that productive and pecuniary linkages are developed with the rest of the economy. However, a strategy that is solely focused on mega-projects to promote equilibrium, stability and dynamic economic linkages is bound to fail if the issues related to promoting a broad basis for development are not seriously addressed. At the same time, since 1987, the government has been trying to address serious macroeconomic imbalances through monetarist policies aimed at controlling aggregate demand and money supply. If external aid is excluded from the picture, progress with respect to macroeconomic stability has been minimal over the last 17 years. Although fast GDP growth has resumed, employment is continuing to fall, skills have been lost, entire industries have disappeared, fiscal revenue has not kept pace with economic growth, and trade and BoP deficits are, and tend to continue to be, strong, unsustainable and rooted in the patterns of economic-, business- and productive-capacity development (INE various; Banco de Moçambique various; Castel-Branco 1994, 2002a, 2002b, 2003).

Monetarist policies have a strong impact on real economic variables (investment, savings, growth, employment): they affect the level, type and allocation of resources available; the behaviour of economic agents, including financial institutions, employers and employees; the ability to mobilise and deploy new resources and capacities; and the dynamics that are more influential with regard to economic growth, investment, trade and development. Such policies have not coped well with monetary variables (except for inflation, which has been below 20%, but unstable, for eight years, no other monetary variable improved significantly). Aid flows are going to start declining and mega-projects will not replace the (apparent) 'stabilising effect' of these flows. Thus, the time may have arrived when the costs and benefits of pursuing monetarist policies to stabilise macroeconomic conditions should be seriously and rigorously reassessed. Most importantly, data clearly shows that there is a clear macroeconomic-production/investment-trade nexus that is far more important in determining macroeconomic balances and long-term development prospects than pure monetary variables as they are perceived by monetarist policies.

Thus, any programme to develop business and productive capacities has to confront the macroeconomic-production/investment-trade nexus, or it will tend to do little for sustainable and dynamic capacity development.

Trends in industrial policy⁷

The development of business and productive capacities cannot be conceptualised and implemented outside specific institutional, policy and economic contexts – capacities to develop, actions to develop them, and the nature and type of business and linkages that may be developed all also depend on institutions and policies in place. Therefore, it makes sense to look at the policy context of industrial development in Mozambique over the last decade or so.

In the first instance, no coherent and relevant, explicit and formal industrial strategy exists in Mozambique. In August 1997, through its Resolution 23/97, the Council of Ministers approved the document, 'Industrial Policy and Strategies'. Since then, this document has never been utilised or developed by the government or businesses. Few civil servants, and even fewer businesses, are acquainted with the contents of this document, and obtaining a readily available copy of the document is not so easy. In addition, industrial-policy documents were also approved for textiles and clothing (in the process of being revised), the paper and graphics industry, cashew marketing and processing, and sugar (focused on price policy). With the exception of sugar, none of the others have been implemented in any significant way.

However, since the early stages of the process of neo-liberal economic reform in Mozambique, which started in 1987, the government has been concerned about the formulation of an industrial policy. This concern arises from three practical factors: the role of industry in import substitution, exports and job creation; the need to address the fundamental weaknesses and pressures faced by the sector; and the need to replace central planning with indirect and 'softer' forms of influencing industrial development. Industrial policy would provide a direction and incentives without interfering with business decisions. Therefore, although formal industrial policy is not part of the core mainstream policies, it plays its role in market-conforming economic reform. To do so, official industrial policy announces government intentions to the business community and avoids action and intervention by the state in any specific issue.

The marginalisation of *active* industrial policy reflects three major problems. Firstly, macroeconomic and trade policies are determined exogenously with

⁷ Section based on Castel-Branco 2002a and GoM (Government of Mozambique) 1997a.

respect to industry-development needs, as they mainly respond to stabilisation and liberalisation concerns and pressures. Therefore, industrial policy has no impact on these policies, and is constrained by them. Stabilisation goals have led to cost-cutting exercises that have been utilised as economic justification for the elimination of instruments of active policy (such as the development bank, (BPD), subsidies to rural trade and key industrial sectors, public financing of training, and provision of other key industrial services), for the weakening and marginalisation of institutions and capacities of the state that are not directly linked with monetarist stabilisation, and for the construction of a narrowly short-term focused financial system. Liberalisation blindness has been the economic argument for withdrawal of the state from supporting a broad-based development process. In a recent meeting with government officials, cashew nut producers (small peasant farmers and larger farmers) complained that the price traders pay for the raw nut is not only very low, but is also falling in real terms. Government officials replied that the problem is exogenous: (i) there are not enough buyers of cashew nuts to promote competition and increase the producer price; and (ii) Mozambique has no processing industrial basis and so has to rely on the monopsony price that the Indian industry is willing to pay for Mozambique's raw cashew nut. What these officials did not mention is that: (i) the domestic cashew processing industry was destroyed primarily by the liberalisation policy of the government; (ii) this liberalisation policy led to total dependency on the Indian demand and price for Mozambican raw cashew nuts; and (iii) the idea behind liberalisation was that competition would emerge and, as a result, would increase the producer price and the incentive to invest in the production of cashew. The officials also did not offer any alternative view or strategy about how to develop the cashew business. Their answer was something like 'the state washes its hands of the cashew problem'.

Secondly, the dominant ideology of economic management in Mozambique since the start of economic reforms with a neo-liberal orientation is that the government should not interfere with business decisions. Therefore, industrial policy also has no influence on microeconomic decisions. The government is concerned about the level of investment because of its impact on growth, income, employment, wages, and the BoP. However, it pays little attention to the sources and allocation of investment and the direction of industrial development, as these should reflect businesses decisions. In addition, the government does not seem to be particularly interested in the social costs of investment incentives and other strategies that promote almost any sort of capital inflows, irrespective of their costs and benefits for the society.

Thirdly, apart from organised foreign capital (e.g. for aluminium, sugar, beverages and finance), there are no other strong and organised political and

economic interests that would seek the formulation and implementation of a clear strategy and put the necessary pressure on the state. Hence, public policy is open to capture and/or influence by a great variety of interests that are fragmented and do not necessarily result in coherent strategies.

Current official industrial-policy documents, either general or industry-specific, have a common and complex, if not bureaucratic, ethos. More than half of each document consists of definitions, generalities, principles and aims, before presenting lists of sectoral priorities. No realistic programme and practical system of implementation, monitoring or evaluation are included. The law defines the role of industrial policy as providing guidelines and transparency with respect to government intentions, whereas decisions concerning the implementation of such intentions are a matter for the private sector.

The documents define six principles on which industrial development should be based: (i) industrial policy should conform with general economic policy; (ii) manufacturing development is a matter for the private sector and should be based on private-sector initiatives; (iii) industrial firms need to modernise, not only rehabilitate; (iv) domestic regional inequalities and imbalances in development should be resolved; (v) development should be environmentally sustainable; and (vi) regional integration within the Southern African Development Community (SADC) is an opportunity for accelerating development through access to investment, technological and institutional externalities, and trade. This list is an indication of the tension that exists between *laissez-faire* ideology and the social and political demand for equitable and sustainable development. It also confirms that industrial policy is constrained by core stabilisation and liberalisation policies and is mainly an informational and rhetorical device.

The following sectoral priorities are defined in the industrial-policy documents: food (sugar, beverages, cereals, copra and cashew for both domestic consumption and exports), textiles (satisfaction of basic needs, and exports), metal engineering (provision and maintenance of capital goods), and building materials (diversified building materials for post-war reconstruction). Opportunities for development are identified in basic metals (intrasectoral linkages and linkages with mining), chemicals (consumer goods and material inputs), and packaging and paper industries.

The strategy defined to implement these goals and priorities includes: (i) the adoption of three stages of manufacturing development, namely rehabilitation, modernisation and diversification, and exporting; (ii) small to medium-sized enterprises (SMEs), together with the private domestic sector, are considered to be the basis for industrialisation; (iii) FDI is important from the point of view of promoting linkages with domestic firms and investors. At a general level, this strategy is expected to be enforced through an enabling business environment

that results from stabilisation, trade and financial reform, de-bureaucratisation, and public provision of infrastructure and training. At a more specific level, SMEs will be supported by general investment incentive schemes, especially funds, export credits, and access to the stock market and other support services. FDI will be supported through the introduction of free industrial zones (FIZ) and other specific incentives that may be negotiated in each case.

However, these policies and strategies are not in line with the real dynamics of the manufacturing sector. This inconsistency is the result of several related problems. Firstly, the dynamics of industrial accumulation are overlooked, partly because of the dominance of orthodox economic policies based on simplistic and inadequate assumptions about markets, agents and the working of the economy. Secondly, the role played by industrial policy in Mozambique is marginal, constrained by targets determined exogenously with respect to manufacturing, and aimed at making sure that the government does no more than announcing its intentions. There are very few tools that the government can use to implement industrial-policy objectives successfully. Thirdly, given macroeconomic constraints, the government is more interested in aggregate capital formation than in the pattern of investment and direction of development. This bias in investment strategy favours large, narrowly based and foreign-owned investment projects and penalises small and medium, more diversified investment projects, foreign or nationally owned. Fourthly, the government does not have the political and technical will and ability to pursue active industrial strategies, nor has it acknowledged the need to acquire such capabilities. The better educated and more experienced civil servants are overburdened with current management. This is aggravated by the fact that the government has made many of them members of the boards of various large privatised companies in order to keep them working in the civil service despite low public wages. Fifthly, the political and economic interests that are better organised and stronger are associated with FDI and large companies, not with domestic SMEs. In this connection, it is believed that active industrial policies deter investment, although the evidence rejects this view. Hence, the priorities defined in the policy documents are not respected by the state or the private sector, and the targets established have not materialised.

As a result, in three of the seven priority industries, output has been declining. In the remaining four, output has become specialised around a narrower range of branches, such that about 80% of manufacturing production is now generated by large foreign firms involved in aluminium, beer, soft drinks, sugar, cereal milling and cement. These firms were also responsible for three-quarters of investment in manufacturing between 1990 and 2003, which has become more dependent on FDI and is concentrated in Maputo.

Existing strategies concerning the establishment of special funds for SMEs and manufacturing support services have not been implemented or have been too modest to make a difference. Policy documents do not address and, given the core economic policies, may not be able to address the issue of how to finance such services and institutions. Thus, in the current circumstances, strategies concerning special funds and support services cannot materialise unless a donor or multilateral agency decides to implement projects in this area. In this case, donor agendas may become more important than specific needs of the manufacturing sector and industrial policy. More importantly, the state may cease to be, or never grow to become, a crucial part of the dialogue within the manufacturing sector, being substituted by a donor or group of donors and multilateral agencies.

The dynamics and structure of manufacturing production reflect the dependence of the sector on FDI for financing of investment projects, as well as the narrow focus of FDI projects that correspond to business interests and strategies of international corporations. Unless alternatives to FDI are found, foreign investment has to become a central component of the analysis and formulation of industrial policy and strategy. To do this, the state has to acquire information and become more knowledgeable about international corporations mainly in the Southern African region. Basic information required about these corporations is that regarding their productive and financial capacities, the competitive conditions facing them in the market and their relative position in it, and their corporate strategies with respect to internationalisation of production, trade and finance. This information would allow state officials to define more realistically the priorities for manufacturing development and how they link with one another; to negotiate better deals with international corporations; to anticipate important issues relating to policy and the implementation of projects; to prepare domestic firms to link with large FDI-financed projects; to provide information for domestic firms so that they can organise and associate themselves so as to negotiate their participation in mega- and other large projects through subcontracting and joint ventures; and to produce credible and operational industrial and investment policies and strategies that would both attract foreign investment and also develop necessary domestic capabilities that complement and go beyond FDI.

However, FDI and FDI-based dynamics, alone, cannot address the set of factors that makes the development of business and productive capacities so crucial. Thus, industrial policy will also have to diversify away from large FDI and FDI-related projects and provide a more effective framework for broad-based industrial and economic development which strengthens the links between processes, sectors, regions and capacities within the economy and between the domestic and world economy.

The need for a business- and productive-capacity development programme

The three big questions that the future development of the Mozambique economy has to be able to answer are: (i) how the macroeconomic-production/investment-trade nexus could be addressed in a sustainable and innovative way; (ii) how the development basis (sectoral, regional and social) of the economy can be broadened; and (iii) how the interests and capacities of economic agents (workers, managers, investors, policymakers, and so on) can be mobilised to support and engage with virtuous dynamics of accumulation, growth and broad-based development. It seems that significant increases in factor productivity, significant improvements in production and work standards, significant increases and diversification of exports, and development of true import substitution are all core parts of the answers.

Business and productive capacities

One way of addressing the questions asked is to support broad-based business- and productive-capacity development. It should be noted, however, that business- and productive-capacity development differs substantially from the traditional ‘private-sector support programme’ that donors and development agencies have become fond of. Whereas the ‘business- and productive-capacity’ (BPC) approach looks at all core aspects related to such capacities, the ‘private-sector support’ (PSS) approach is mainly focused on the issues that can create or consolidate private ownership and control (only some of which are part of the required capacities, or are answers to developing capacities). For example: (i) BPC has to be selective with respect to capacities and dynamics to create, whereas PSS does not; (ii) BPC emphasises the positive relationship between public, social and private capacities, whereas PSS opposes them; and (iii) BPC calls attention to labour organisation, development and empowerment, whereas, in PSS, labour is a cost.

Although developing a BPC programme is not the only, nor even the most important, response to the questions asked, it is, nonetheless, a crucial one. Why is this so?

First of all, the productive capacity of the economy (including direct productive linkages, infrastructure, services, skills, investment capacities, and so on) has to be developed in order for Mozambique to be able to face major development challenges associated with poverty reduction and increasing competitiveness of the economy. The Mozambique-based private sector has been asked to perform such a central role in developing such productive capacities. However, for a number of reasons, such section of the private sector is generally fragile,

uncoordinated, and lacks managerial, technical and economic knowledge to develop and to directly benefit from linkages with foreign markets and capital. Furthermore, businesses are unlikely to develop efficiently if productive capacities, at large, are weak and fragile. Finally, around the strengths and weaknesses of the domestic private sector, strong and entrenched interests are developing that often result in conflicts between firms, in conflicting pressures for policy change, in pressures that are damaging for the economy as a whole, and in very little clarity with respect to strategies that could bring about growth, stability, and social justice and development simultaneously. Thus, supporting business development requires a broader approach to developing business and productive capacities.

Secondly, Mozambican businesses and productive capacities should grow and develop in such a way as to benefit the BoP, increase fiscal revenue in a sustainable way, result in significantly more jobs, and also better and better paid jobs under better working conditions, and increase the rate of savings and investment. These goals, which are required to sustain high rates of growth and of poverty reduction, can only be achieved together if the productivity and efficiency of the economy improve as a whole. Thus, the private sector has to rise to this challenge, rather than continue to be trapped in a vicious circle of low or high profits, but always at a high cost to the economy and society.

Thirdly, and in relation to the previous point, Mozambican businesses and productive capacities must rise, very quickly, to the challenges posed by regional and international commitments and trends that will force Mozambique into furthering trade liberalisation with its partners in the region and the world. To benefit from trade liberalisation, and to stop trade liberalisation from damaging, even more, the balance on the current account, fiscal revenues, and employment levels and standards, Mozambican businesses have to achieve the productivity, scale, scope, quality and reliability standards that are required to become competitive, have to build a good reputation, and have to be able to compete in the regional and world markets. These standards have to be achieved very quickly, which requires improved strategies and actions to develop such productive capacities and standards.

Fourthly, Mozambican businesses and productive capacities must diversify into a broader social, sectoral and regional development basis. Recent economic growth and business development have been highly concentrated and narrowly based around a few FDI-based mega-projects (such as the large aluminium smelter, BHP-Billiton's Mozal, its power station, Eskom's Motraco, Sasol's natural-gas project, and the heavy or mineral sands projects), or around other relatively large FDI-based investment in industries that operate under monopolistic or oligopolistic corporate strategies (such as Cimpor's cement industry, SAB's beer

industry, Coca-Cola Sabco's soft-drink industry, and Illovo's and Tongaat Hulett's sugar industry). As a whole, six industries and not more than 20 firms account for three-quarters of private investment and two-thirds of growth recorded over the last decade or so. These trends have narrowed the scope of economic activities and capacities, have made the economy more vulnerable and volatile, and have excluded large sections of business and the population at large from benefiting from growth. Thus, business and productive capacities have to develop in order to significantly increase domestic linkages with mega- and large projects and to develop other sources and poles of growth and development dynamics that help a broad (social, sectoral and regional) development path to emerge. This path should not only improve export conditions through diversification, but should also strengthen domestic linkages and effective import substitution through backward and forward linkages emerging from major and diversified growth poles.

Fifthly, the effects of 'peace dividends' are coming to an end, such that the economy will tend towards stagnation if domestic investment and productive capacities and organisation do not improve very significantly and very quickly. Given the low level of economic activity and high, deep and widespread poverty, an average real rate of GDP growth of 8% or higher over the next decade is necessary to make a significant difference to social and economic development. Over the last decade, it was possible and relatively easy to achieve such high rates of growth because of the end of the war, the normalisation of life, the resettlement of millions of peasants, massive aid, and FDI-based mega-projects, and because of massively underutilised, existing capacities. High rates of growth could also be relatively easily reached because the starting point of the economy was so low. These 'peace dividends' no longer work, or, at best, are not enough to continue to pull the economy towards higher rates of growth and social and economic transformation. Unless the productive capacities of the economy, and the strategies that guide and support them, are very significantly and quickly improved, Mozambique's development goals will be jeopardised.

Hence, the chances that economic support for Mozambique results in sustainable economic growth and development are significantly improved by the adoption of a coherent and articulated programme to support the development of productive and business capacities.

Policy, strategy and coordination

As mentioned earlier, the development of business and productive capacities cannot be conceptualised and implemented outside specific institutional, policy and economic contexts – capacities to develop, actions to develop them, and the

nature and type of business and linkages that may be developed all depend, also, on institutions and policies in place. Therefore, it makes sense that business- and productive-capacity development addresses some of the key issues related to economic strategy and policy.

There are some key issues that have to be looked at if businesses and productive capacities are ever going to develop in ways so as to respond to the three big questions asked earlier. Firstly, there is the issue of definition of growth, investment and development priorities, and of capacities, mechanisms and the willingness to pursue them, support them, monitor the results and learn. It seems that agro-industry, and other forms of industrialisation around broad-based and sustainable development and deployment of national capacities, linkages and resources, could well provide the focus for core policies. Additionally, given the dynamics of mega- and large projects already in place or coming into place, it would also make sense to identify core linkages that are developing and could be developed further to strengthen the dynamics of growth and increase the positive impact of mega- and large projects on the macroeconomic-production/investment-trade nexus.

Secondly, there is the issue of institutional coordination of goals and objectives, responsibilities, strategies and policies, and activities and capacities. The responsibilities for industrial strategies and policies are fragmented and bureaucratically distributed, with no relevance whatsoever for capacity creation. Supporting institutions and instruments of policy (quality and standards, technological innovation, training, incentives, information, linkage promotion, finance, business centres, and so on) either do not exist or are pursuing goals on their own, or they are disarticulated from strategies and policies that core sectors try to pursue (when there are any). Although committing strategies to writing has become fashionable and an important occupation for top civil servants, department-based strategies are actually weakening coordination and promoting fragmentation, thereby reducing overall capacity and weakening the link between, and relevance of, public-sector programmes and the development of business and productive capacities.

One key and typical example is the issue of agro-industrialisation. The Ministry of Agriculture and Rural Development (MADER) is interested in local agro-processing on a small and micro-scale as a last-resort strategy to cope with small amounts of untraded agricultural surplus due to market fragmentation, but has no vision of agro-industrialisation as a process to develop business and productive capacities and to transform and modernise agriculture and the economy. The Ministry of Industry and Trade (MIC) is developing strategies to rehabilitate and bring back to life the vast number of bankrupt or underutilised agro-industrial plants. The MIC suggests doing this at any cost, including facilitating cheap

and duty-free imports of basic raw materials. However, no one is bringing these different institutions and pressures together and trying to identify what should be changed about agriculture and industry such that the country agro-industrialises. If this type of fragmentation continues to exist, none of the three big questions (asked earlier) will be answered.

Another typical case is that of incentives. On the one hand, they are too general and wide-ranging to support any specific set of priorities. On the other hand, they are too wide and generous for very large projects, to the point of reducing their economic contribution to very close to zero. Finally, in many cases, they may actually be irrelevant and redundant, particularly if one considers that investment decisions have more to do with globalising corporate strategies than with any specific attractiveness of the Mozambican economy.

These two examples bring to the agenda another angle of the coordination problem: the focus of coordination or, in other words, the goals/objectives around which coordination takes place, and how coordination is performed. Which interests and dynamics should drive coordination of industrialisation processes? Why are such goals/objectives/industries and firms selected and not others, and how are they selected? What are the economic criteria that justify such selection and impose discipline upon the performance of the firms? Which institutional and political basis would be more likely to favour the development of 'successful' industrial policy, and against what criteria would such successes be measured?

Thirdly, there is the issue of the development of cheap, easily accessible and good-quality business services in respect of training and technical and managerial education, information, finance, quality and standards, certification, advice, regulation, monitoring, systems of innovation, product and process development, marketing and market strategy support (particularly for exports), and so on. Public services have to become more business-oriented and links between them and business and productive capacity need to be strengthened. Information has to be developed and made accessible through universal platforms, and a culture of basing decisions and analysis on sound data and data processes has to be created and developed.

Fourthly, there is the problem of business strategies: partnerships, specialisation, choices of markets and technology, product and process development, the adoption of known best practices that apply to specific conditions, accounting, continuous analysis of costs, and analysis of markets and developments in the industry.

Mozambican firms and industries are weakly organised and are very difficult to organise into networks, partnerships, and so on. There is an implicit and explicit idea and practice that firms should compete against each other, rather than in respect of problems that prevent their sustainable development, and that

cooperation between firms is more dangerous than beneficial. Many analysts attribute this problem to business culture, but they fail to explain the origin and resilience of such business culture. This is obviously a problem that seriously hampers the development of productive and business capacities and that seems to be strongly linked with issues of public and private strategy and coordination, with the development of economic and technical complementarities and linkages between different types of firms, as well as with the broad (or narrow) range of opportunities for benefits of growth and development accruing to a wide range of different agents: small and large firms, exporters and domestic suppliers, employers and employees.

Donor support for business- and productive-capacity development

It is not the aim of this paper to develop a comprehensive analysis of donor programmes in support of business- and productive-capacity development. However, it is important to mention some key points, as it seems that, before starting something new, it would be interesting to learn from past experience.

Firstly, donor programmes in this field tend to support 'private-sector' development rather than the development of 'business and productive capacities'. This emphasis might be ideologically driven or may result from the simplistic, if not wrong, assumption that development of private ownership and control of economic assets equals development of business and productive capacities. Thus, the emphasis of most programmes is on what may prevent the transfer and control of assets and transactions between agents, rather than on what capacities should be developed (at business and government institutions, strategy, policy and capacities alike). Apart from mentioning red tape, bureaucracy, liberalisation policies and simplification of procedures, donor programmes almost never consider that business and productive capacities, and the capacities of public institutions and the quality of their strategies, are directly and positively related. Thus, private-sector programmes are often presented as an alternative or in opposition to development of overall (including public and social) capacities and fall in an economic and strategic vacuum, which voids their relevance and effectiveness.

Secondly, donor approaches are not always complementary, and, often, they are fragmented and reflect the focus view of each organisation. For example, with respect to private-sector development, USAID is mostly concerned with red tape and simplification of procedures. While red tape is a problem, removing it does not add to capacities. However, if one sees the problem from a pure neo-liberal perspective, removal of red tape helps markets to operate better and lowers the costs of transactions. All the rest is left for market and private-sector decisions.

This, however, is fundamentally different from the more micro- and less orthodox approach of the United Nations Industrial Development Organization (UNIDO), for example, that focuses on productive-capacity creation and the provision of systems of information and on policy-business coordination. Whereas USAID assumes that capacities at micro-level are better left to the market and businesses, UNIDO is concerned with creating such capacities in a more dynamic link between public institutions and private businesses. Thus, the fact that different donors operate at different levels does not necessarily mean that their programmes are complementary. Instead, it may actually show how conflicting, or at least different, their approaches are.

Thirdly, donors tend to create a donor coordination group for almost all significant actions in order to pressurise the government to follow a certain path and policy agenda. In a way, donors coordinate their strategies vis-à-vis the state and, by presenting common agendas, transform their ideas into dogmatic truth. In the light of this, one should be cautious about the recent creation of the donor group for 'private-sector and economic growth'. What Mozambique needs is an articulated national strategy, not a donor-driven one. As one can see from the topics discussed/addressed by the donor group (facilitation, red tape, trade mainstreaming, and the like), the focus of the group is not on growth dynamics and business and productive capacities, but is, very clearly, on the donor's agenda: trade mainstreaming and market liberalisation.

Another problem related to this form of donor coordination is that, if donors set the agenda on growth and the private sector, they will 'impose' such an agenda on public and private institutions alike. This happens independently of any direct donor pressure, because the only activities that take place in a systematic way at the level of public and private institutions alike are those financed by donors – the Confederation of Business Association's (CTA's) programmes and approaches, as well as the focus of the MIC on trade and on the relationship with the CTA, are just two examples of this.

Thus, donors should rather support the emergence of an articulated and coordinated approach to growth and business- and productive-capacity development within national institutions (involving the government, trade unions, businesses and business organisations), rather than developing their (the donors') own institutional framework to articulate and impose an agenda that cannot articulate economic dynamic processes in Mozambique. The risk is very much that the disarticulation of domestic institutions will weaken private-sector development and the political and economic framework on which it is based.

In conclusion, and generally speaking, there are three major and common problems with all private-sector programmes, both bilateral and multilateral: (i)

they do not form part of a broader and coherent strategy to develop business and productive capacities and the economy as a whole; (ii) they do not strengthen domestic institutions and help them to become more sustainable and capable of developing strategies and policies; and (iii) the programmes, themselves, put conflicting pressures on public- and private-sector capacities. Since they lack an articulated strategy and institutional setting, private-sector support programmes tend to become another of many donor-financed programmes and pressures that crowd out domestic capacities and initiatives.

There is an urgent need to understand national experiences with respect to the development of business and productive capacities, and to identify major strategic issues that have to, and can be, addressed. For example, the government of Mozambique has created and developed organisations that deal with investors, investment and private-sector development: a bureau for the promotion of commercial agriculture (the GPSCA), national institutes for cashew and cotton (INCAJU and INAM, respectively), a bureau for private-sector support (the GASP), and a centre for investment promotion (the CPI). In addition, there are private organisations that work towards the development of private-business productive capacities, such as, for example, Technoserve, the general union of cooperatives of Maputo city (the UGC) and the GAPI. Each of these organisations represents different approaches and experiences, but also shares common knowledge and experiences.

How much do public and private domestic institutions and donors know about these and their knowledge and experiences, as well as their capacities to conceptualise and implement articulated strategies? If any donor is ever going to support private-sector development in a meaningful way, it has to learn from existing experience and it has to base its support on the existing stock of institutional capacities – unless, of course, donors are more concerned with imposing their own agenda and weakening the state, rather than being concerned with developing business and productive capacities.

It would be better and more effective to support existing institutions to develop articulated approaches and interventions. For example, it would be more sustainable, more effective, and would generate more multiplier effects to support the GPSCA to become a core capacity in promoting articulated agro-industrialisation in close relationship with businesses than it would to develop a coordinated donor approach based on donors' agendas that would impose priorities and directions in respect of capacity building into national institutions.

Additionally, there are many fundamental points that emerge from studies and from experiences with private-sector support programmes that should be taken into account as possible general guidelines to develop strategies. These include, in

addition to articulation of institutions, the need for information systems, business centres, business advice, and strategies to build capacities, to advise and to inform business and investment decisions, and so on.

In relation to this last point, it would be important to identify consultancy and advice capacities that exist in Mozambique and that can be easily mobilised (not only consultancy firms, but also banks, industrial associations, public-sector institutions like the CPI and the GPSCA, etc.).

Maybe, the most radical and innovative role that could be played by a donor programme on growth and business- and productive-capacity development would be to help the government, businesses, trade unions and donors to understand the need for an articulated approach and institutional setting (including such aspects as incentives, policies, procedures, facilities and organisations). These could evolve into an institution that, around certain goals (such as, for example, agro-industrialisation and linkages with mega- and large projects), could coordinate business- and productive-capacity development within a clear industrialisation strategy.

These goals could only be developed and achieved if the overall picture of business- and productive-capacity development, including the macroeconomic-production/investment-trade nexus, is far better understood and considered.

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QUESTIONS CONCERNING DEVELOPMENT OF THE PRODUCTIVE BASE IN PARP: IMPLICATIONS FOR STRATEGIES TO DEVELOP THE NATIONAL BUSINESS CLASS

Carlos Muianga

Introduction

In Mozambique, the need to develop a dynamic business sector strongly on the rise is clearly stated in several of the government's strategic documents and plans, as well as in those of the various business groups and associations (e.g. the Confederation of Business Associations [CTA]). The most recent government poverty reduction action plan (PARP 2011–2014) raises this question, albeit in a generalised and simplistic form, and without a clear focus on the real possibilities of the development of domestic productive capacity (GoM 2011). Hence, PARP recognises the need to increase production and productivity in agriculture, to create jobs, and to support the emergence and development of small to medium-sized enterprises (SMEs). One problem is that PARP does not define the real basis for this to happen, which is not a great advance in the way of thinking about national productive strategy and on the role of the private sector and of the national business class in the development of domestic productive capacities.

This paper critically analyses PARP's vision of the development of a broad-based and diversified productive base and how PARP conceives the role of the national business class in this process. The paper argues that the conception of PARP about the role of the private sector in the development of a broader and

more diversified productive base is very simplistic and unrealistic and lacks a basis for analysis of the existing productive dynamics (what is produced, how it is produced, who produces it, with what resources and capacities it is produced, on what scale it is produced, to what purpose it is produced, with what logistics and financing it is produced, and what the conditions of profitability, the markets, the linkages, etc., are) as well as their relationship with the existing business base and with the one intended to be created. Hence, understanding the existing and dominant productive dynamics, their specific characteristics, and how these dynamics structure, or are structured by, the existing business base and productive capacity, can constitute a significant advance in shaping specific actions for the development of a dynamic and competitive national business class.

What does PARP say about the development of the productive and business base?

Three fundamental questions determine the focus of PARP regarding the development of the productive and business base: the increase in production and productivity in agriculture, the promotion of employment, and the development of SMEs. The increase in production and productivity in agriculture lies merely in the recognition of the importance of family production in the sphere of food and nutritional security (food production), particularly in the rural areas. This family production is, at the same time, characterised as relying on underdeveloped techniques and technologies that generate very low levels of income and returns. This, according to PARP, reflects one of the main reasons for poor agriculture productivity in Mozambique. Because of these technical and technological limitations, PARP sets out the following actions for increasing production and productivity in agriculture: improving access to factors of production (inputs, technology, etc.), facilitating access to markets and to finance, and improving the sustainable management of natural resources (GoM 2011).

In turn, the focus on SMEs is oriented towards maximising investment and promoting employment, but without establishing any strategic linkages with the existing productive and business dynamics or discussing any specific industrial problem. Indeed, in PARP, the promotion of SMEs and the liberalisation of the labour markets are defined as the main objectives for job creation and the resulting reduction in poverty. Because of this assumed (direct and simplistic) linkage between SMEs and employment, the actions envisaged in PARP are to create 'a favourable environment' for the creation and development of SMEs. This 'favourable environment' is limited to simplifying procedures for licensing

economic activities and for paying taxes (GoM 2011). The argument is that expanding the simplified regime for licensing economic activities, particularly for the creation of SMEs, along with tax incentives, will stimulate productive activity, thereby creating new jobs and therefore reducing poverty. In turn, actions leading to the improvement of the business environment and employment promotion are also determined by the need for access to land, the transfer of land-use titles (DUAT) and facilitating the procedures for importing and exporting goods and services. Furthermore, PARP mentions the need to promote linkages between SMEs and large projects (particularly the mega-projects) through establishing 'linkages/complementarities programmes' in order to stimulate the supply of goods and the provision of services, as well as the formation of industrial clusters and product and value chains.

These questions have implications for the development of productive business capacity and cannot be analysed separately from the internal and external productive dynamics and their strategic objectives. For example, the most evident and developed business base is essentially dominated by large projects (in respect of mineral resources, transport and communications, and related infrastructure) without a focus on the development of domestic productive capacity, given their specific characteristics and interests (a focus on foreign markets, and the production and export of primary products, with or without minimum processing).

What are the problems which arise from PARP and what are the implications for productive and business strategy?

It is important to consider a number of questions when thinking about a production strategy (e.g. where do the objectives of the strategy come from, what specific interests does the strategy respond to, and what are the weakness and constraints of thinking about a strategy in one or another way?). Although these questions are not dealt with in PARP, they are extremely necessary for understanding what direction the strategy intends to take and what results it is possible to envisage. For example, regarding the development of the business base, what is the direction that PARP suggests? What implications can the direction suggested by PARP have for the most dominant business dynamics (large natural-resource projects, infrastructure, etc.) and for those which are emerging (e.g. industrial and service SMEs)?

Defining priorities

From a more general point of view, the main problems which emerge from PARP reflect methodological problems (what is the starting point for identifying opportunities, and, through these, identifying the limits and defining priorities?). Like some sectoral documents, strategies and policies (which served as a basis of support for drawing up PARP and which, in some cases, even contradict or clash with PARP, and even among themselves), PARP starts from rhetoric for defining priorities for the development of the national productive base – that is, PARP starts out from what it would be desirable to have, to do and to happen, regardless of the limits, constraints and real possibilities for implementation. For example, the generalised focus on what ‘is missing’ (in the case, for example, of agriculture and SMEs, this includes inputs, technologies, financing, infrastructure, markets, etc.), rather than on what ‘exists’ (production and the conditions and relations of production, the producers, the markets, the linkages, the macroeconomic framework, etc.), does not allow us to visualise the limits and opportunities in respect of what it is possible to produce, on what scale, under what conditions, and what the role of the national business class in this process is.

Woodhouse (2012), based on his analysis of the dynamics of the agricultural markets in northern Mozambique, points to the weakness of the argument about ‘the lack of conditions’ (inputs, technology, access to markets, finance, infrastructure, etc.) as the main factor behind the poor production and productivity in agriculture. His analysis shows the existence of demand points (e.g. the demand for soya to feed the growing production of, and demand for, chickens), which suggests a more dynamic approach to how to think about increasing agricultural production and productivity and access to markets among small-scale producers. Furthermore, the dominant dynamics in the agricultural sector (agricultural concessions aimed at export: biofuels, forestry, tobacco, cotton, cashew, sugar, etc.) have specific and well-defined characteristics (markets, financing, logistics, etc.) and are tending to become increasingly consolidated. These dynamics have a structuring impact not only on the productive activity of the family sector, but also on the possibility of the emergence of a dynamic and competitive business class (in the countryside), since they affect and structure the markets and the availability of resources (land, water, labour, capital, etc.).¹ However, although they are important, these dynamics are neither systematically nor strategically considered in defining

1 There are some questions about the importance of looking at the real and dominant agrarian dynamics (which also include the family sector) when thinking of agricultural transformation. The issue is that thinking of a strategy to transform a ‘subsistence’ family agriculture into an agriculture more directed at the market, as PARP wants to do, necessarily implies an understanding of the socio-economic dynamics of the countryside, their differentiation (the differentiation of the processes and organisation of production, of scale, of markets, etc.) and the linkages with the current pattern of accumulation.

the productive priorities of PARP, above all as potential for the development of productive forces in the countryside (firms, resources, capacities and skills, etc.). Hence, in considering these constraints, some questions can be raised: (i) how is it possible to think, consistently, about real processes of agricultural production, of distribution and of consumption, and how are these processes organised and coordinated within the economy? (ii) what would be the role of the existing and emerging national business class in this entire process?

The analysis of the promotion of SMEs also reveals PARP's problems in designing a production strategy. The focus on SMEs, apart from describing the need to empower them to create more jobs, does not reflect any specific industrial problem. SMEs, from the way they are considered in PARP, face a number of problems, ranging from problems of training and learning to their development and competition on domestic, regional and world markets. It is important to rethink the relevance of the analysis of the productive problems that PARP is trying to overcome. However, the generalised way in which SMEs are considered does not make it possible to identify the real problems that they are facing, nor does it allow a more coherent analysis of what sort of intervention is necessary for them to develop and become competitive. For example, what type of capacities do companies of a particular type or in a particular field of activity need in order to transform themselves and become competitive, at least on the domestic market? What type of production incentives do these companies need to reduce the initial investment costs (in the way of infrastructure, cheap financing, institutional support, etc.). The simplification of the licensing procedures for economic activities, particularly for the creation of SMEs, does not, on its own, make it possible to identify the capacity of the companies to undertake certain activities, acquire new capacities, skills and qualifications, develop linkages (upstream and downstream) and operate in specific markets. Hence, the licensing of productive activities cannot be reduced solely to the need to legalise and/or create the largest possible number of SMEs, but should also identify which companies have the capacity to learn, to appropriate knowledge and capacities and, in the long term, to generate new knowledge and new capacities. This would make it possible to develop a broader and more diverse productive base, starting from these companies.

The question about incentives for production raises another problem. Incentives for productive activity are fundamental in the analysis of the problems which PARP raises, in that they structure the way in which economic agents (for example, companies) use different capacities (of investment, of production and of linkages) stimulating (or not stimulating) their expansion and the creation of new capacities and activities within the economy. However, generalised fiscal incentives, such as those which PARP and other official government documents

describe, are more likely to fail in attaining the goals of developing the productive and business base. The question that arises is: what will really be the role of public intervention in developing SMEs (and their competitiveness) in the current system of accumulation, and to what extent does this system affect or constrain the objectives of the intervention? Hence, how is it possible to develop a more sustainable business base focused on what is missing and not on what exists and on the real possibilities of bringing it into existence?

The problem of financing the productive base

The methodological problems identified in PARP are also reflected in the question of the financing of productive activity (the increase in agricultural production and productivity and the development of SMEs) in general. PARP does not establish limits or real constraints on financing productive activities. The 'assumption' is that the production strategy, in itself, will generate its own financing capacity, regardless of the degree of differentiation of the productive processes, the markets, and the patterns and conditions of profitability, including the impacts and the real possibilities of access to other factors of production. Hence, the analysis on the financing of productive activity in PARP is undertaken, on the one hand, almost outside of the real patterns and dynamics of state financing,² and of fiscal and monetary policy in particular, as well as of the dynamics of the expansion of banking and of financial services nationally. With regard to the expansion of banking activity, it is important to understand that this is trying to respond to what exists (and its linkages) and not necessarily to what is missing.³ For example, PARP describes the need to expand the network of infrastructure and of financial institutions and/or services throughout the country, particularly in the rural areas. This is an undeniable factor for the development of the domestic productive and business base. However, if we look at what exists, particularly at the current investment trends (with respect to natural resources, energy and related infrastructure), which are treated in a very superficial manner in PARP, it is possible to note a scenario that is almost contradictory. Firstly, the network of infrastructure to be developed in the coming years should be centred on extractive activity essentially aimed at exports (e.g. the building of the Moatize–Nacala railway and the Nacala airport, the rehabilitation of the Sena line, the building of the Mphanda Nkuwa Dam and the Centre–South electricity transmission line

² Foreign aid, domestic and foreign public debt, public–private partnerships, etc.

³ This information may be confirmed with reference to the speech of the chairperson of the Banco Único, João Figueiredo at the Portugal–Mozambique Conference: Strong Linkages held on 2 to 3 May 2013 at the Girassol Indy Congress Hotel & Spa. Figueiredo argued that banks can only expand into the rural areas if there are conditions of profitability associated with the scale of production, trade and other services.

[CESUL], and other large-scale investments) which, because of their potential to generate returns in the short and medium term, could absorb a substantial part of the domestic financial resources capable of financing the diversification of the national productive base and the emerging SMEs.

Some questions about the development of the productive and business base

The existence of dominant productive dynamics (export-oriented mineral and energy mega-projects, medium and large agricultural concessions, and small-scale productive activities, etc.) which, both from the methodological point of view and from the viewpoint of the real possibilities, are not consistent with the type of intervention which answers the questions that PARP raises, gives rise to some problems. Such dynamics, as the paper argues, should be understood in order for there to be a more consistent analysis of the problems of developing the national productive base.

The organisation of production

The organisation of production is fundamental in the analysis of what it is possible to do given the real dynamics and their interactions. The existing dynamics (the producers, the markets, the social relations of production, etc.) display a structure of organisation of production which reflects and responds to the specificities of scale, of the markets and of the type of interactions that the productive activities make it possible to develop. For example, the scale, the organisation and the objectives of family and commercial production are different and respond to specific questions and interests. Hence, the need for transformation to modern ways of organising production requires a deep understanding of these specificities.

One of the questions that PARP raises is the need to promote the formation of industrial clusters and value chains to improve the competitiveness of national production. The analysis of the development of clusters and value chains is very interesting when thinking about the industrial organisation of production. However, it is first necessary to understand what exists, to identify the opportunities and possibilities, and to define around which activities and to what ends the formation of clusters and value chains is relevant. It is also important to think about what the resources, the capacities and the motivations of the potential actors (companies, suppliers, consumers, industries and supporting services, etc.) are. Value chains and industrial clusters vary according to the scale of social, spatial

and technical organisation of production and the type of interactions that develop between the various actors within the chain. Thus, value chains exist within a complex matrix of institutions and supporting industries and are sustained by a variety of critical inputs, including human resources, infrastructure, capital, finance, and services, among others. These inputs are not neutral relative to the global dynamics of production and the competitive pressures that emerge from them. On the contrary, they are, to a large extent, structured by these dynamics.

For example, in PARP, the analysis of the competitiveness of domestic SMEs is undertaken at the margin of these dynamics and of the competitive pressures resulting from technical and technological advances, as well as of the regional dynamics of accumulation and their impact on the economy. Such dynamics require constant transformation of their organisational structures on the part of the firms, the institutions, and the policies needed for competitiveness. Hence, sectors, industries and companies require new capacities to manage technical changes and the institutional skill to develop new capacities, which, in turn, requires more effective support for the initial production, acquisition and mastery of new technologies, etc. A more dynamic institutional environment and the availability of skilled labour and capital (infrastructure, finance, technology, etc.) are important factors, but are not determinant assets for broadened and diversified growth. However, helping companies to begin production, to master new technologies, to innovate and to acquire competitive advantages cannot be reduced to the simple question of simplifying this or that procedure and/or liberalising the labour market. Rather, it is a broader process of creating new industrial capacities to compete on a global market, both domestic and foreign.

Linkages between SMEs and large companies

One of the strategic objectives of PARP, which has direct implications for the development of the existing and emerging business base, is the promotion of linkages between SMEs and large companies (particularly the mega-projects) as a way of stimulating the supply of goods and the provision of services. Since they are a dominant dynamic, it is really important and necessary to consider the mega-projects and the potential linkages they can generate within the economy. The question that should be posed in the first place is to consider in what areas public intervention is important. This question concerns, above all, the need for public intervention to be capable of identifying the type of interactions that are possible and likely to generate continuous demand dynamics in respect of domestic SMEs, and to develop new industrial capacities which allow Mozambican companies not to depend exclusively on the large projects. Thus, like any other dynamic within

the economy, mega-projects generate demand points that are capable of generating new dynamics of accumulation upstream and downstream, on a national scale. The question posed is: how sustainable can these points of demand be, and to what extent can they provide some methodological basis for thinking about industrial strategy and dynamic industrialisation processes that could generate and multiply linkages within the economy and allow the development of a more diversified and competitive business base?

Analyses of mega-projects in Mozambique show that these are capital, technology and skills intensive and, given the complexity of the productive processes (the technology, the resources, the skills, the standards, the markets, etc.), embarking on the need to strengthen the linkages between SMEs and large multinational projects requires an ‘upgrading’ of national companies. This requires, in turn, high investment costs in the creation of new industrial capacities.⁴ So, the question is: how to invest in the development of new capacities and how to take advantage of these capacities for the sustainable development of national companies?

Some experiences of success and failure of national companies which developed industrial capacities for the domestic market based on linkages with mega-projects would be a starting point for a strategy to support the development of business capacities within the economy. However, one must bear in mind that investing in new industrial capacities could be good if the economy as a whole is able to absorb them, but it could also be bad if the focus is only on mega-projects. This analysis poses some questions: what exists (companies, production, technologies, markets, etc.), and which industrial capacities are the most pressing to develop, to what end, and with what resources? What would be the role of public intervention in identifying the real and sustainable possibilities for promoting linkages between national SMEs and mega-projects, without necessarily constraining the possibility of diversifying industrial capacities for the economy as a whole?⁵

Final considerations

From the more general point of view, this paper reflects on the extent to which the overall strategies of economic governance are related to the dynamics of development of business and productive capacity in Mozambique, with a specific focus on the government’s most recent poverty reduction plan. The paper undertook a critical analysis of the perspective of PARP towards the development

4 Castel-Branco & Goldin 2003, discuss in more detail the experience of Mozal in generating linkages with national companies, and the advantages and problems of the linkage models developed.

5 This question draws attention to the need to avoid a considerable part of the investment of Mozambican companies in new industrial capacities from being absorbed in favour of the large projects (through short-term service provision contracts).

of a broad-based and diversified business base. It argued that developing a dynamic and competitive business base requires an understanding of the existing business dynamics and why they exist, and finding the common thread which explains the various existing dynamics, their consistency and the linkages between them. One of the main concerns raised in the paper is that the analysis of the development of the productive and business base in PARP is undertaken with no consideration for the real processes of accumulation and of the social and technical organisation of production, the markets and the linkages which exist, and which have impacts on the current and future macroeconomic dynamics, the allocation and use of resources, and the opportunities of real options for business development.

The paper also defends the existence of dominant productive dynamics (the mineral mega-projects, the export-oriented agricultural concessions, cashew, cotton, tobacco, etc.) which generate demand points capable of originating new dynamics of accumulation upstream and downstream and of developing a more dynamic and competitive business base. The analysis of these dynamics suggests, on the one hand, the need to rethink the questions of developing the productive and business base which PARP raises, above all in the problematic of the organisation of production and in the objectives of industrial policy and strategy. On the other, the specific arguments, problems and questions presented in the paper raise three questions for reflection: (i) what are the most important and priority issues for the development of the productive and business base? (ii) why is it important to think about (and face) such questions? (iii) what do these questions suggest to us, and what business development strategies do they lead us to?

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CHALLENGES OF FINANCING THE PRIVATE SECTOR IN MOZAMBIQUE - REFLECTION ON THE IMPLICATIONS OF THE RESORT TO DOMESTIC PUBLIC SECURITIES DEBT FOR FINANCING THE STATE

Fernanda Massarongo

Introduction

Access to finance is one of the main problems encountered by the private sector in Mozambique, particularly small and medium-sized enterprises (SMEs). The World Economic Forum & et al (2013) and the Confederation of Business Associations (CTA 2013) – in the matrix of the Monetary and Financial Policy Portfolio – point to improving access and reducing the cost of credit as a priority for the development of the private sector.

The problem of access to finance is linked to several factors. It is important to reflect on these so that a diagnosis can be made that allows us to identify effective solutions. From this perspective, the present paper discusses the question of financing the state, specifically with regard to domestic public securities debt (DPIM), by showing how the options chosen by the state for its financing may be affecting access to finance on the part of the private sector. The task this paper proposes is of special relevance in the current context, where basic official documents, such as the National Development Strategy (ENDE), point

to solutions to the problem of access to finance which exclude discussion of the implications of the way the state is financed.¹

The Mozambican state has been running continual budget deficits (although there has recently been a trend for these to decline). The effectiveness of economic growth in expanding the tax base (the capacity of growth to generate additional revenue) has been very weak, and so tax revenue and grants (the main sources for financing public expenditure) are not enough to cover the funding requirements of the state budget (OE). This leads to the permanent need to resort to alternative forms of mobilising resources.

The limited capacity to retain the wealth generated in the country – as a result of the structure of the patterns of growth and of economic accumulation associated with the high level of foreign dependence – gives rise to a fiscal dynamic characterised by slow growth of tax revenues (Castel-Branco & Ossemame 2009). Consequently, there is limited capacity and undertaking on the part of the state to decide, economically, politically and institutionally, on the mobilisation and productive and efficient allocation of resources to finance its expenditure.

Thus, faced with this fiscal dynamic, the government is centring its strategy on measures that are capable of guaranteeing stability in the short term, measures that are focused on mobilising aid and foreign and domestic debt. Consequently, some of these measures tend to feed the existing pattern of accumulation, thereby limiting the possibilities for transformation and economic diversification that are capable of generating more fiscal and non-fiscal resources. In turn, this capacity to mobilise enough alternative resources to finance the OE for a particular period and which are focused on short-term stability is regarded as achieving success, thus marginalising the implications that these forms of financing have on the productive capacity of the economy in the medium and long term.

The present paper seeks to reflect on the problematic and the challenges of financing the state by using domestic securities debt. Specifically, the paper analyses the economic implications (in terms of impact on the patterns and dynamics of growth and economic and fiscal accumulation) of the use of DPIM as an alternative way of financing public expenditure.

The paper is organised into four sections. Following this introductory section, the second section undertakes a brief analysis of the evolution of DPIM as a source of financing public expenditure. The third section analyses the implications of internal securities debt on the financing of the state. Finally, the fourth section reflects on the challenges of financing the state in the context of the broadening,

¹ ENDE indicates that the main solution to access to finance by the private sector is an increase in the supply of credit. The document does not discuss the implications of DPIM, but points to it as one of the ways of financing public-revenue deficits.

diversification and articulation of the productive, commercial and investment base in Mozambique.

Domestic public securities debt as a way of financing the state

Domestic public securities debt (DPIM) refers to the issuing of debt titles by the government to resident private agents, generally via the commercial banks. In Mozambique, the debt titles issued are divided into treasury bonds (OT) and treasury bills (BT). The bonds are medium- and long-term debt titles issued to finance budget deficits, and the bills are short-term titles issued to finance current treasury deficits resulting from the delay in receiving funds to finance expenditure planned in a particular period.² The DPIM constitutes about 80% of the total domestic public debt and is the portion which directly finances state expenditure. Apart from the DPIM, the domestic public debt also consists of debt assumed by the state, that is, debt in respect of which the state is a mere guarantor of third parties (which may be local governments, government institutions, autonomous public bodies, and public and private companies) (DNT 2009).

Securities financing is relatively recent in Mozambique. It began in 1999 (GoM various) with the establishment of the Mozambique Stock Exchange (BVM).³ However, constrained by the limited national savings and by the pressures which the issuing of public-debt titles places on the economy, this source of finance was always considered to be in third place, after foreign loans and grants. Such pressures are linked to the low levels of credit in the economy and to the pressure on domestic interest rates, which lead to more expensive servicing of the debt, since this is indexed to interest rates on the domestic market.⁴

Despite such constraints, use of DPIM has become frequent, contrary to the government's intention to minimise use of this financing alternative. The graph in Figure 1 shows that the DPIM stock has grown rapidly since the start of issuing these titles. From about 60 million meticaís in 1999, the DPIM rose to about 5.4

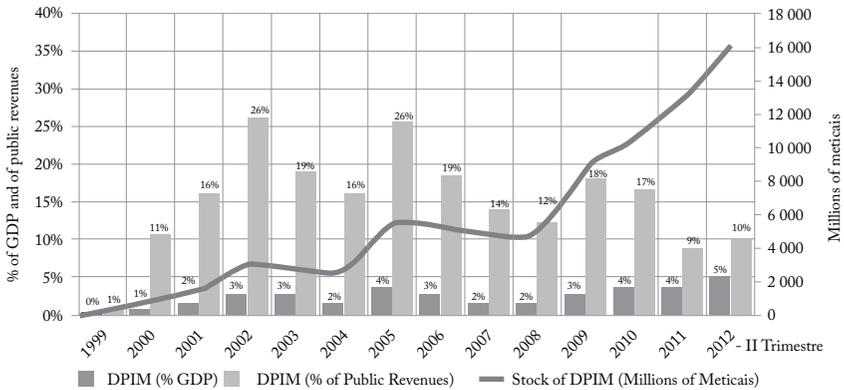
2 The treasury bills are also used for purposes of monetary policy – see Government of Mozambique, Decree no. 22/2004 of 7 July, on the Legal Regime of Treasury Bills (Boletim da República, 1st Series, no. 27, Republic of Mozambique, 2004). As an instrument of monetary policy, the bills also have implications for the economy, and it is important that these should be discussed. However, this paper only looks at the issue of treasury bills linked to financing the state.

3 Securities financing in the current forms was first undertaken in 1999. However, data from official statistics of the National Statistics Institute (INE) indicate the existence of a stock of treasury bonds in 1990.

4 The pressure for an increase in interest rates occurs because the sale of public-debt titles represents the public-sector credit demand. Thus, given the increase in demand for this resource, and since its price is the interest rate, this price will tend to increase. In addition, the high level of profitability and security of the public-debt titles ensures that credit is diverted to acquire them. Thus a lesser share of financial resources is left over for the private sector. Various agents compete for these to finance their activities, placing another kind of pressure on interest rates. In a classical manner, this mechanism of transmission is explained by the fact that the supply of public titles leads to a reduction in their price, which, in turn, has an inverse relationship with the interest rate. But the applicability of this mechanism is debatable, since, by their nature, the patterns, the productive structures, and the pressures and interests around it are not homogeneous.

billion meticaís in 2005. It reached about 8.7 billion meticaís in 2009, and this figure almost doubled in 2012. This evolution contradicts the forecasts of a decline in the DPIM made by the DNT in its analyses of debt sustainability (DNT 2008; (MF) Ministry of Finance 2010, 2011, 2012).

Figure 1: Stock of DPIM in millions of meticaís and as a percentage of GDP and as percentage of public revenues



Source: INE (n.d); GoM (Various)

This contrast with the desire for minimal issuing of DPIM and the forecast of its decline shows a certain vulnerability in the national public accounts. The point is that such forecasts were not aligned with a strategy for growth in public revenue and hence an increase in the capacity of the state to finance itself. Instead, they were linked to a strategy to prioritise grants and soft loans. Thus, in periods when foreign aid is not sufficient for the state budget, or even in cases where funds are delayed, the primary resort has been to domestic debt through the issuing of treasury securities.⁵

Prominent among the reasons behind the issuing of DPIM was the incapacity to mobilise sufficient resources (foreign and domestic) to finance the recapitalisation of the commercial banks in which the state had holdings. This led to the issuing of OT in the first years of the new century. By 2002, OT 2000, 2001 – I series, OT BAÚ (2001-II, 2002-I and III series) and OT 2002-II series had been issued, with the values, respectively, of 745, 234, 2 356 and 100 million meticaís (DNT 2009; Massarongo 2010).

Of these bonds, the OT 2000, with a maturity of ten years, were amortised in advance, with two bond issues in 2004 and 2005 (to the value of 250 and 496

⁵ This has been a frequent practice in sub-Saharan African countries with relatively underdeveloped capital markets. For them, the only alternative to the lack of foreign aid and soft loans has been contracting debt internally.

million meticaís) with a five-year maturity. The same happened with the OT BAU, and the OT 2002-II series. In addition to these factors, the need to recapitalise the Bank of Mozambique because of losses resulting from exchange rate fluctuations led to the issuing of bonds between 2005 and 2007 totalling about 4 500 million meticaís (Massarongo 2010).

In 2005, the budget deficit resulting from the lack of sufficient resources to finance public expenditure led to the issuing of bonds to the value of 1 667 million meticaís. Some of these bonds were paid by issuing OT to the value of 350 and 290 million meticaís in 2008 and 2009, respectively (DNT 2009; BVM 2009). In addition to these bonds, according to the 2010 Report on the Analysis of Mozambique's Public Debt Sustainability, in 2009 short-term domestic debt was issued in order to confront the effects of the global financial crisis. Consequently, the debt stock rose to 14 429 billion meticaís.⁶ In addition to the bonds, in 2009 the government had a balance of 4.7 billion meticaís on treasury bills which rolled over into the following year.

In 2010, about 800 million meticaís in treasury bills were added to the balance from 2009, ensuring that the balance on the bills rose to about 5.5 billion meticaís. In addition to the treasury bills, treasury bonds were issued to the value of 2 917 billion meticaís to subsidise fuel prices and to the value of 1 807 billion meticaís to finance the construction of public buildings.

In 2011, the balance of treasury bonds rose by about 2.4 billion meticaís compared with the previous year. The bonds issued were used to finance investment and public buildings and to compensate for exchange rate differences. In 2012, more than 3-billion meticaís in treasury bonds were issued, and, for 2013, the forecast was for the issue of about 3.6 billion meticaís in bonds to finance the budget deficit.

It is important to note that the treasury bills, although issued in some years, do not generally count in the debt stock, because they have a maturity of less than a year. However, their debt servicing, in terms of interest, is reflected in the accounts.⁷

The graph in Figure 1 also shows the evolution of the DPIM in terms of various economic indicators which make it possible to analyse its sustainability (i.e. the DPIM as a proportion of public revenue and of GDP). It should be noted that the DPIM has grown significantly as a proportion of revenue and of GDP since the start of issuing these securities in 1999. As a proportion of public revenue, the DPIM reached about 26% in 2004, and about 30% in 2010. Currently, it has

6 The report states: '...However, there was no issue of short term debt for purposes of fiscal policy, except for the issues that occurred in 2009, caused by the need to stimulate recovery of the economy after the effects of the global financial crisis which affected the demand for exports in Mozambique.' – MF 2010.

7 This may be regarded as a defect in the provision of public accounts, since it would be prudent, from the point of view of sharing information with civil society, for this information to be available to the public.

fallen and now stands at about 10% of public revenue. As a proportion of GDP, the DPIM reached about 8% in 2012.

It can thus be concluded that the use of the DPIM as a source of financing the OE has increased significantly, even with the well-known adverse impacts on the economy (crowding-out of private investment as well as high debt service). This increase in the use of the DPIM is a result of the vulnerability deriving from dependence on foreign aid to finance public expenditure. The continuation of the stock of this debt is evident, since, even in the current year, treasury bonds were issued to finance the deficit on public revenue – not to mention that the ENDE shows that domestic debt will continue to be important for public financing.

Implications

Firstly, one must consider that the main creditors of this debt are the national commercial banks (BVM 2009). So the resources used to finance the state via the DPIM are the same that private business struggles for in order to finance its activities. Thus, taking into account the context of high interest rates (i.e. higher than one digit), mainly in the years 2000 to 2005, the DPIM must have contributed both to diverting resources away from productive activities and to making credit for the economy more expensive. Furthermore, taking into consideration that the banks are financing the economy to the limit of their capacity,⁸ the issuing of DPIM must have sucked up a considerable proportion of the financial resources, particularly in the period between 2000 and 2005, which must have reduced access by the private sector to domestic financial resources (Massarongo 2010). Table 1 confirms this point, showing the weight of the financial resources absorbed by issuing DPIM as a proportion of financial savings, measured by bank deposits. Excluded from this calculation is the issue of treasury bills by the Bank of Mozambique for purposes of monetary policy. Hence, the issuing of DPIM may be worsening the shortage of credit for the private sector (i.e. creating a shortage of financial resources for the private sector and making them more expensive).⁹

8 As suggested by Osman 2009, the financing capacity of the banks could be measured by their financial savings plus the reimbursement of previous loans. However, since the data on repayments are not easily obtained, the financial savings (represented by deposit accounts) could be a proxy for the variable in question.

9 It is important to mention that, in this analysis, the possibility is not excluded that these resources absorbed by the public sector contribute to stimulating private expenditure, because the crowding-out or crowding-in effects depend not only on the magnitude of the public absorption of financial resources from the commercial banks, but also, and above all, on how these resources are used by the state budget.

Table 1: Weight of DPIM in total savings

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total financial savings	2.3	3.6	4.8	6.3	9.1	9.7	11.2	15.2	20.8	26.7	33.2	42.3	46.2	56.8
Issuing of DPIM	0.1	0.7	0.7	2.0	1.9	4.0	3.6	1.6	1.5	0.4	0.3	1.5	2.6	3.2
% of DPIM	3%	21%	15%	32%	21%	41%	32%	10%	7%	1%	1%	4%	6%	6%

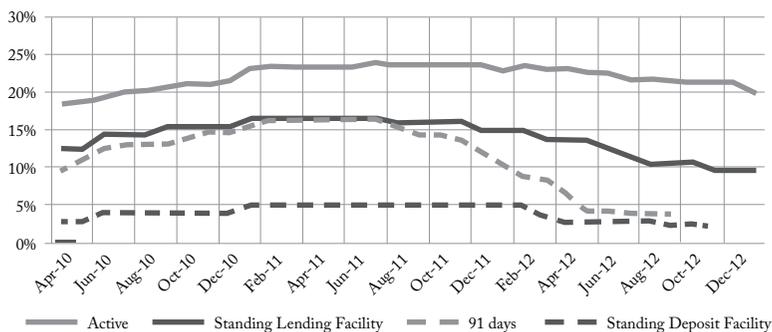
Source: IMF International Financial Series (various) (in billions of meticals)

Secondly, the issuing of DPIM may affect the effectiveness of monetary policy, particularly when measures are taken to expand credit to the economy. The sale of public-debt securities implies that the money in circulation is soaked up by the government. Thus, when the monetary authorities are taking measures to expand credit, which could be through purchasing the BT in the hands of the commercial banks, the issuing of treasury securities could counterbalance this measure and limit its scope. It is likely that this happened recently when the Bank of Mozambique reduced its own key reference rates in order to influence a reduction in the interest rates charged by the commercial banks. At the same time as the reference rates were reduced (between mid-2011 and early 2013), treasury bonds and bills were issued (Table 2 shows the evolution of the stock of these instruments). This, together with other measures adopted by the Bank of Mozambique prior to reducing the reference rates, may have contributed to the tight liquidity conditions that limited the response of the commercial banks to the reduction in the reference rate (see graph in Figure 2). Thus, the issuing of DPIM, when not coordinated with the policy of the central bank, may have a negative impact on the effectiveness of measures to stimulate the economy.

Table 2: Domestic public debt stock during the period when the Bank of Mozambique cut the reference interest rates

Instrument	2010	2011	Quarter II 2012
Treasury bonds	4 991	7 376	7 376
Treasury bills	5 500	5 500	7 500
Others	8 256	9 454	9 150
Total	18 747	22 330	24 026

Source: MF 2012

Figure 2: Evolution of interest rates charged by commercial banks and of the reference rates (April 2010–January 2013)

Source: BoM (n.d.), interest rate data (www.bancomoc.mz)

Thirdly, although the stock of the DPIM is only 11% of the total public debt, public expenditure in interest payments on this debt has exceeded interest payments on the foreign debt, which accounts for about 84% of the total public debt. Furthermore, interest payments on the DPIM are higher than expenditure on important social costs.

Table 3: Comparison between interest paid on the domestic public debt and expenditure on priority sectors¹⁰

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 (Jan - Mar)
<i>Interest on public debt</i>	325	115	477	1 274	1 317	1 321	1 245	1 372	1 275	1 259	1 371	2 673	3 583	972
Foreign	318	104	147	322	317	411	457	456	403	455	538	813	994	307
Domestic	7	11	330	952	1 000	910	789	916	872	804	833	1 860	2 589	664.3
Education	1 795	3 141	4 743	4 217	5 150	6 639	7 396	8 797	11 950	15 116	16 673	19 871	14 482	3 165
HIV/AIDS	0	6	110	188	81	127	354	488	492	503	315	257	178	27
Infrastructure	1 481	2 490	3 643	3 861	3 540	3 496	6 995	7 298	7 826	9 461	10 134	15 624	19 848	3 361
Agriculture and rural development	583	994	707	1 243	1 260	1 367	1 525	1 989	2 067	2 471	3 648	4 060	3 996	647
Social welfare	-	-	-	-	185	188	207	269	353	724	836	871	1 423	272
Labour and employment	-	-	-	-	76	115	131	142	161	217	247	294	319	74

Source: GoM (various)

¹⁰ Note that the table presents the total interest on all domestic private debt (DPI) paid in each year, and not the DPIM interest. This is because the public documents present the information on interest on the DPI in an aggregate form; hence it is not possible to distinguish how much is DPIM interest. But this does not distort the analysis, because the DPI consists overwhelmingly of DPIM.

They are double the public expenditure on the fight against HIV/AIDS and, in some years, amount to half the public expenditure on agriculture and rural development. These figures show the high social cost of financing the public deficit by resorting to DPIM (MF (various); Grupo Moçambicano da Dívida 2006) – that is, its cost is higher than, or equivalent to, expenditure in areas which can positively affect the private sector.

Final considerations

The circumstances in which the DPIM is issued allows us to confirm the hypothesis that this could become one of the main alternatives for financing the public deficit, particularly if foreign aid does not increase, or begins to decline, and if tax revenues remain limited and continue growing slowly. The DPIM has been used in emergencies (delays in disbursements or occasional reductions in flows of foreign aid, extraordinary expenditure such as financing the deficits of the banks, payment of the DPIM itself, lack of sufficient, foreign soft loans or grants, among others), but it is becoming relevant as a priority instrument for financing the deficit. As long as the state budget remains in deficit, the possibility of issuing DPIM cannot be ruled out. However, the current conditions of issuing DPIM, in which financial savings are still scarce and interest rates are high, ensure that the cost of contracting this debt is high, both for the private sector (because of the crowding-out effect) and for the public sector (because of the impact of the financial costs of this form of financing the public expenditure deficit). Furthermore, the DPIM as a financial resource may not be applied productively, which represents an additional cost for the economy as a whole. Hence the resort to DPIM to finance the deficit should be minimised. To this end, it will be necessary to increase the capacity of the state to finance its expenditure at the same time as substantially reducing its dependence on foreign aid and on private sources of financing the budget. The sustainable alternatives to foreign aid and to DPIM involve accelerating the growth of fiscal revenue through internal taxation. So, among other actions, it is necessary to review the sources of revenue which have been underexploited, to reduce tax incentives by minimising those which are redundant, to renegotiate existing contracts with large projects which are benefitting from large and redundant fiscal incentives, to improve the public administration, and to link public expenditure (including that financed by the DPIM) directly with the creation of conditions for diversifying the investment, productive, commercial and distribution base in order to diversify and expand the fiscal base itself.

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LINKAGES BETWEEN LARGE FOREIGN INVESTMENT PROJECTS AND LOCAL SUPPLIERS: THE PROMISE OF DEVELOPMENT

Epifânia Langa & Oksana Mandlate

Introduction

The large foreign direct investment (FDI) projects, particularly those oriented towards the export of primary products, constitute the growing and dominant economic dynamic in the country. However, the national productive base remains underdeveloped and is dominated by small and micro-companies with weak capacities in respect of management, technologies and investment (DNEAP 2013). In this context, the productive linkages upstream of the large FDI projects are understood as opportunities for strengthening the national private sector and inducing more inclusive development.

In fact, several academics, as well as the Mozambican government, recognise that poverty reduction in Mozambique depends on the creation of a broader productive base and on the diversification of the economy, and the large FDI projects represent potential poles of industrialisation (Castel-Branco 2010; AfDB, OECD, UNDP & ECA 2013; GoM 2014). In addition, the national private sector sees upstream linkages with large projects as an opportunity for capacity building, linked with large volumes of business and transfer of technology, thereby contributing in this way to the strengthening of the national business class (AIMO 2011; CTA 2012).

It is in this context of debate on the potential of the linkages between FDI and national companies that this paper attempts to understand – based on the experience of a series of Mozambican companies which supply the Mozal mega-project – to what extent upstream linkages with large FDI projects make it possible to create, diversify and articulate industrial capacities within the economy. The study analyses the dynamics which emerge over the medium and long term in the development of the companies.

The paper is structured in six parts. After this introduction, the second section presents the methodology used in the study. The third section presents the characteristics of the productive base which are relevant for discussing linkages with large projects. The fourth and fifth sections present and discuss the two main arguments that emerge from the study. Finally, the conclusions and implications of the study for the debate on economic policy are presented in the last section.

Methodology

The study takes as its reference point the experience of Mozambican companies which have upstream linkages with the Mozal aluminium smelter, the first FDI mega-project in Mozambique. Mozal was chosen because it has been in operation for more than 15 years, a long enough period for analysing the dynamics produced in the medium and long term. The focus on upstream linkages was chosen for two reasons. Firstly, in the current context of Mozambique, linkages upstream have greater potential for contributing to industrialisation than linkages downstream (AfDB, OECD, UNDP & ECA 2013; Castel-Branco & Mandlate 2012). Secondly, up to the moment of the study, no relevant linkages downstream had been developed with this mega-project.

The present paper is based on the results of two studies which used two different, but complementary, methodologies: one case study of four engineering companies and a survey of 12 other companies¹ in various sectors, giving a total sample of 16 companies with mostly Mozambican owners or shareholders. Given the objective of dynamics emerging in the medium and long term for companies in different sectors, the construction of the sample brought together the following criteria: (i) companies which had established linkages with Mozal in the 1998–2004 period – which allows us to analyse dynamics over a longer period; (ii) companies that are relatively more skilled: which were covered by the capacity-building programmes of the Centre for the Promotion of Investment (CPI) and which are referred to in

1 Initially, the study intended to cover a larger number of companies, but several of the companies contacted were unwilling to participate.

the literature on productive linkages between Mozal and Mozambican companies as 'cases of success'; (iii) stress on the engineering sector because of its enormous potential contribution to industrialisation (Castel-Branco & Goldin 2003).

The data-collection method used in the study was to interview company leaders using a semi-structured questionnaire, complemented by visits to the respective premises. Interviews were also held with representatives of Mozal, of the CPI,² and of the Beluluane Industrial Park. All the interviews were held between October 2012 and March 2013.

It should be noted that the paper does not intend to present a general picture of the companies linked to Mozal, but attempts to identify various factors which structure the productive linkages in a specific context, given the characteristics of the economy, of the companies and of the linkages established. The non-random sampling method, intentional in case studies, and not intentional in the case of surveys (determined by the difficulty of access to systematised information and in obtaining answers from all the companies approached), although it does not allow us to make generalisations, raises relevant questions for discussion about the role of upstream linkages in strengthening Mozambican companies and industrialisation.

The national productive base

The dynamics which emerge between the large FDI projects and national companies are without doubt associated with the more general context in which they operate. Hence it is relevant to discuss (albeit briefly) some significant characteristics of the Mozambican economy.

According to Castel-Branco (2010, 2013), the national economy is specialised in producing primary products for export, with limited processing, leading to productive processes which function in parallel with each other, without developing upstream, downstream and transversal linkages between each other. According to this author, these trends towards concentration and narrowing of the economy have worsened with the entry into operation of large FDI projects focused on exploiting primary products due to their enormous weight on national investment, production and exports.

Over time, national industry has lost capacities, both in traditional areas and in the more sophisticated areas, which reduces the probability of developing and articulating linkages within the economy (Castel-Branco 2010). Table 1 shows

2 Government institution responsible for promoting productive linkages around Mozal.

that, on the one hand, the national productive base is traditionally not very diversified and is concentrated on primary products (tobacco, cement, sugar) and some consumer goods for the domestic market dependent on imported inputs (beer, flour). On the other hand, between 1959 and 2008, only three new groups of statistically relevant products were introduced in a sustainable manner, all from processes of primary transformation (aluminium, gas, plastics), while various types of production, both primary (sisal, copra, tea, cashew, ceramics, glass, iron and steel, petroleum derivatives) and more complex and technology-intensive (electrical and non-electrical equipment), were discontinued in the economy (Ibid).

Table 1: Concentration of production in the main subsectors of the manufacturing industry

Subsector	Products introduced since 1959	Products 'discontinued' between 1959 and 2007 (i)	Composition of the sector (2004-2008)			
			Main products	Value of production in 2008 (000' MT) (ii)	% of production of the subsector	% of total industrial production
Food, drink and tobacco	None	Tea (1993) and processed cashew (1994)	Sugar, flour, beer, tobacco,	4 462 759	70%	10.9%
Textiles, clothing and skin products	None	Sisal (1992) and copra (2000)	Cotton, thread and sacking	240 663	70%	0.6%
Non-metallic minerals	Ceramics (1966) and glass (1966)	Ceramics (2002) and glass (1997)	Cement	2 105 078	70%	5.1%
Metallurgy	Aluminium (2000)	Iron and steel (1999)	Aluminium	28 592 324	98%	69.8%
Engineering	None	Non-electrical equipment (2001), electrical equipment (2003)	Various metallic products for final consumption	26 986	80%	0.1%
Chemicals and petroleum derivatives	Natural gas (2004), petroleum derivatives (1961), plastics (1966)	Petroleum derivatives (1992)	Natural gas	2 120 386	80%	5.2%

Source: Castel-Branco 2010

Note: (i) By 'discontinued' products is meant those products which were relevant but have become statistically insignificant both in terms of value produced and in terms of weight in the production of the sector, even if there is still some production of these goods. (ii) Values in thousands of meticais at 2003 constant prices.

Furthermore, the most recent survey of manufacturing industries (DNEAP 2013) shows that most of the manufacturing companies employ less than ten workers (with slow growth of labour), use basic technology to produce relatively homogenous products, and are characterised by lack of dynamism.

In this context, the large FDI projects appear to be new potential markets for Mozambican companies, markets that are more dynamic, on a greater scale and with greater profitability, with it being expected that new industrial capacities will be generated and the national business class strengthened. Indeed, former Prime Minister Aires Ali declared: 'With these business linkages, small and medium companies will be able to grow more, consolidate themselves and play a vanguard

role in our economic development, thus allowing Mozambicans to be the main beneficiaries of the wealth that our country possesses' (AIM 2013). The present paper seeks to investigate to what extent these expectations can be met in the current context.

Linkages with large FDI projects in themselves do not provide a broad basis for the development of national companies

The first argument which emerges from the results of the study is that, given the characteristics of the national productive base, linkages with large FDI projects do not, in themselves, constitute a broad basis for the development of national companies, because, on the one hand, the potential of the linkages that can be attained by national companies is limited, and, on the other, there is no guarantee of sustainable growth in the long term when the linkage with the large project is interrupted.

The attainable opportunities of linkages with large FDI projects are limited

The need to promote productive linkages between large FDI projects and national companies is not a new question. This question was initially posed during the construction phase of Mozal after finding that few Mozambican companies had managed to establish linkages with the mega-project. A survey undertaken by the CPI, in 1998 and 1999, in order to identify potential suppliers for Mozal showed that over 90% of these companies had serious problems with product quality; did not have the required experience and project portfolio; worked with outdated equipment and technology; and had serious management problems and inadequate capacities. On the other hand, the majority of the contracts made available by Mozal were large in scale, with demanding financial and quality requirements which surpassed the capacities of most of the Mozambican companies. To overcome this situation, programmes were developed to promote linkages with local suppliers (SMEELP,³ Mozlink 1 and 2) which covered other large projects apart from Mozal, such as Sasol, the brewing company Cervejas de Moçambique, the electricity company Electricidade de Moçambique, and Coca-Cola (Castel-Branco & Goldin 2003).

Today, more than a decade later, the national private sector still faces difficulties in making linkages with large FDI projects. Hence, before discussing the results

3 Small and Medium Enterprise Empowerment and Linkages Programme.

of the study on the dynamics emerging in companies with linkages with the large projects, it is important to understand why the existing potential for linkages does not materialise.

In fact, the real possibilities for linkages are limited. The concentration and narrowing of the national economy already mentioned, plus the dual character of the domestic market, represent the main constraint on achieving linkages with local suppliers. The domestic market has a dual character because, on the one hand, the large FDI projects constitute a market with significant demand which is dynamic, capital-intensive and with high requirements (for quality, safety and management), while the traditional domestic market is concentrated, small, fragmented, and with low levels of quality (Castel-Branco & Goldin 2003; Langa 2014). In practice, Mandlate (2014) notes that the possibility for more national companies establishing linkages with large projects is limited by factors of various kinds:

- Some linkages are not viable internally because certain productive processes, mainly in areas of restricted technological specialisation, require a minimum scale of activity, but their world markets are dominated by one or two specialised companies, while the size of the internal market means it cannot absorb a minimum level of production within the current technological process.
- Certain linkages are difficult for Mozambican companies, given their weak initial capacities and the unfavourable structure of the Mozambican economy (high cost of funding, absence of complementarities, defective infrastructure, among others) faced with competition from foreign companies: the establishment of linkages in industrial areas requires significant investment in capacity building and technological upgrading, which is only possible with the availability of funding,⁴ time for capacity building, and guarantees for dealing with the risk associated with entry into new markets.
- Given the need for investment and restructuring of the company in the initial phase of establishing linkages in areas which need an improvement or increase in the existing capacity, the first companies to accede to the market of the large FDI projects – the national *first movers* – possess comparative advantages in linking with other large projects (because they have experience, a certain reputation in the market, and their production chain is already oriented to respond to this segment), which makes it difficult for new companies to enter.

4 National companies are poorly positioned to make investments from the moment that they face more expensive costs of financing in the banking system.

As a consequence of points (i) and (ii), the linkages between national companies and large FDI projects happen in the provision of supplementary and/or basic services which do not require significant investment in capacity building. Table 2 shows sectors of activity of the companies studied. Although more than half of the companies belong to technologically relevant sectors, with great potential for generating positive externalities for other industries, such as engineering, electricity and air conditioning, most of the companies studied from these sectors provide services that are not very specialised, such as the supply of small metallic tools, welding of metallic structures, and basic maintenance services. The remaining companies belong to sectors with less potential for industrial capacity building: transportation of workers, and cleaning and laundry services.

Table 2: Sectors of activity of the companies in the sample

Sectors	No. of companies
Engineering	8
Construction	2
Electricity	2
Transportation of workers	1
Air conditioning	1
Cleaning	1
Laundry services	1

Source: Authors, based on interviews realized in 2012 and 2013.

The effect of point (iii) is shown in Table 3: 75% of the companies studied set up linkages with other large FDI projects such as Sasol, Vale, Rio Tinto, etc., after their linkage with Mozal.

Table 3: Orientation of companies to other mega-projects

Companies	A	B	D	G	H	I	J	M	N	O	P
Main client	Mozal	Mozal	Mozal	EDM	BM	BIM	CMC Africa	Ncondezi Coal	State	Vale	Total Moç.
Clients' mega-projects	Vale	Vale, Rio Tinto, Kenmare	Vale, Sasol	Sasol, Vale, Rio Tinto	Vale, Rio Tinto	Vale, Anadarko	Vale		Sasol, Vale	Sasol, Kenmare	Sasol

Source: Langa 2014 and Mandlate 2013

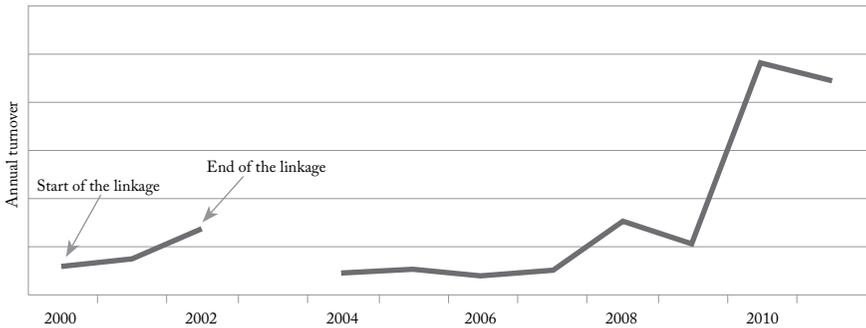
The establishment of linkages with large FDI projects for a particular period is not a guarantee of sustainable growth in the long term

Apart from pressures for achieving linkages, the concentrated and dual character of the economy constrains the possibility of the economy absorbing capacities acquired through linkages with large FDI projects. As a result, the end of the linkage with a large project may lead to periods of crisis in the companies.

The establishment of a linkage for a particular period with a mega-project such as Mozal has, without doubt, enormous financial repercussions for the companies. Hence a significant increase in the volume of business during the linkage is the most notable effect on the companies. In addition, the linkage has unleashed transformations in the structure of certain companies due to the need to comply with the requirements for quality, management, and safety at work, among others, which, in certain cases, included investment in acquiring new lines of production and equipment used exclusively to supply Mozal. Thus, for the companies studied, the linkage meant the loss of some command of the traditional market in favour of concentrating efforts on the contract with Mozal (Castel-Branco & Goldin 2003; Mucavel 2010).

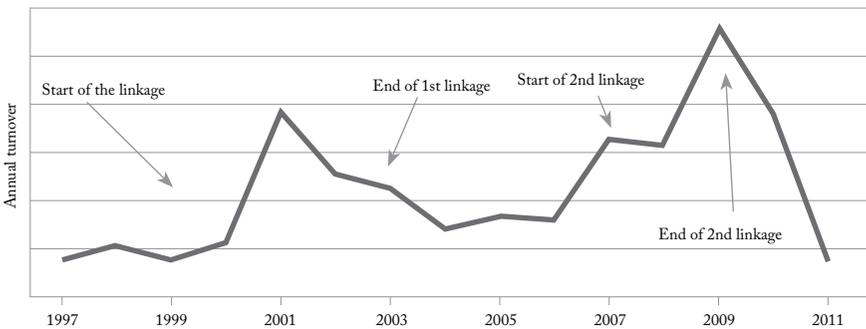
However, of the companies studied, seven did not succeed in renewing their contracts and lost their linkage with Mozal, and four reported that the end of the linkage caused instability in their growth. The graphs in Figures 1 and 2 show two engineering companies which established linkages with Mozal between 2000 and 2003. The end of the linkage led to a drastic reduction in the volume of business of the companies, resulting not only from loss of the contract and the difficulty in restructuring the companies rapidly to respond to the traditional market (with standards and requirements opposed to those of Mozal), but also from the narrowing of the market in general. In the case of Company K, the end of the linkage caused a crisis in the company which was only overcome with the re-establishment of the linkage with Mozal in 2007. Apart from the decline in the volume of business, the period of crisis was marked by financial losses due to the investment made in new lines of production, the removal of some working conditions instituted during the linkage, the end of the use of international standards such as, for example, quality norm ISO 9000, and the breaking of partnerships, among other internal tensions. Because of this, the financial gains made during the linkage were eaten away by the later periods of crisis. In the case of Company J, the end of the linkage was followed by a long period of stagnation in business volume, something that was overcome through linkages to other large projects connected to the expansion of the petroleum industry and the reorientation of the market segment to large public and private projects.

Figure 1: Evolution of the volume of business of Company J



Source: Langa 2014

Figure 2: Evolution of the volume of business of Company K



Source: Langa 2014

Thus the experience of the companies shows that the rhythm of growth and the standards of production that emerge from the linkage with a large FDI project are not sustained after the end of the linkage, because the traditional market is not able to absorb the capacities and skills introduced in the companies. Hence, a linkage with a large project for a particular period is not in itself a guarantee of long-term sustainable growth in the companies.

Growth of the national companies linked to the large FDI projects does not necessarily lead to diversification of the economy

Diversification of the economy and building the capacity of companies encompass much more than the emergence of new activities and productive units. Rather,

they rest on the broadening and densification of productive and technological linkages in the economy (Castel-Branco 2002). However, linkages with large FDI projects in areas such as gardening, security, real estate, transport and other basic services have a limited potential for multiplying industrial linkages and accumulating technology. So, to understand to what extent linkages with Mozal contribute to the diversification of the economy and to building the capacity of national companies, it is interesting to look at companies which work in areas with the greatest potential for contributing to diversification, such as engineering and industrial services, and particularly companies that are growing and are regarded as examples of positive linkages with Mozal.

In our sample, these are companies A, B, O and P. To understand their potential for the diversification of the economy, reflected by their contribution to the articulation and densification of linkages and the accumulation of skills and capacities, the study analyses the development of the shape of the network of linkages and the composition of their basket of products.

As already mentioned, the most significant mechanism unleashed in national companies by their linkage with Mozal concerns their exposure to a larger and relatively more stable demand, with important financial repercussions. Although all companies face the same mechanism of transmissions linked to the volume of business, clearly this does not lead to the same evolution for all companies. What are the dynamics arising from this mechanism in the engineering companies that are growing?

Dynamic 1 – concentration of business volume

The four engineering companies mentioned have recorded growth associated with a concentration of business volume, of between 30% and 50%, with a single, large client. This characteristic has remained, even in the case where the linkage with Mozal was interrupted (Table 4). This is due, on the one hand, to the volume of the demand from Mozal faced with the capacity of national SMEs, and, on the other, to the absence of alternative dynamic markets. Concentration is observed in the rest of the sample in general, varying between 20% and 80% between different companies (see the graph in Figure 3).

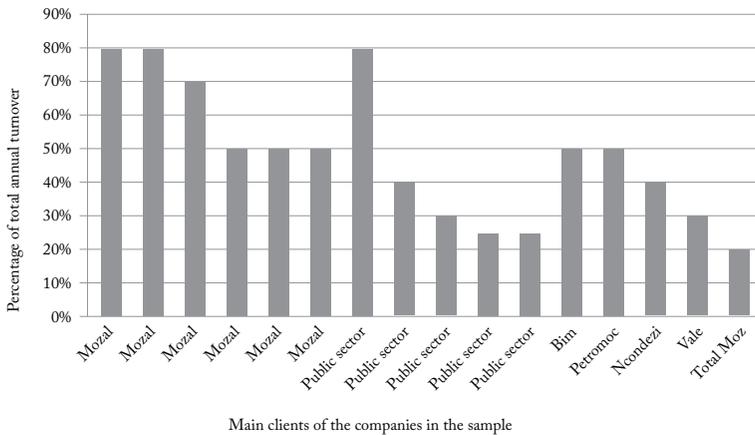
Table 4: Pattern of concentration of business volume in companies A, B, O and P

Companies	A	B	O	P
Growth	Accelerated	Accelerated	Accelerated	Moderate
Main client	Mozal	Mozal	Vale	Total Moç.
Concentration	50%	40%	30%	50%

Source: Mandlate 2013

To reduce the risk associated with the concentration of business volume in a single client, the companies studied are making efforts to diversify their clients, but they are still concentrated on large FDI and public-sector projects (Table 5). This preferential linkage with large projects has a logical explanation. Firstly, the large FDI projects constitute a dominant dynamic and it is they which, together with the public sector, offer the main business opportunities in the national economy.

Figure 3: Concentration of business volume in companies linked to Mozal



Source: Langa 2014; Mandlate 2013

Secondly, the large FDI projects, which are linked to international markets, make it possible for the companies to achieve a higher rate of profitability, even though the linkage involves making investments to guarantee international quality standards and despite the relative costs of the national companies being higher than those of foreign companies due to the weakness of most of the complementary industrial services and infrastructure.

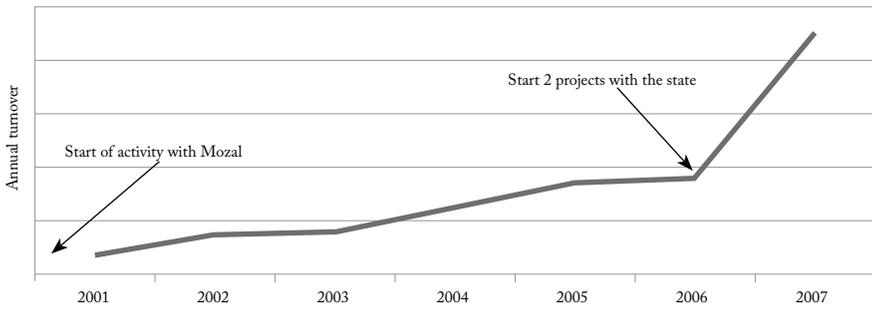
Thirdly, and arising from the previous points, the cost structure of these companies is transformed and oriented towards responding to the requirements and standards of the large FDI projects. This is of limited application to other segments of the market.

Table 5: Diversification of clients in companies A, B, O and P

Company	A	B	O	P
Growth	Accelerated	Accelerated	Accelerated	Moderate
Mining	Vale	Vale, Rio Tinto, Kenmare	Kenmare	
Infrastructure		Cornelder, CFM, Matola Coal Terminal	Maputo Port	
Industries	Sugar companies, CDM, STEMA	CDM, Merc	CDM, sugar companies	
Construction		CETA, Teixeira Duarte, S&B		
Fuel companies		BP, MGC	BP, Petromoc	BP, Petromoc, Engel, Total FUNAE, CFM
Public sector	MF, INV, STAE	MINED		

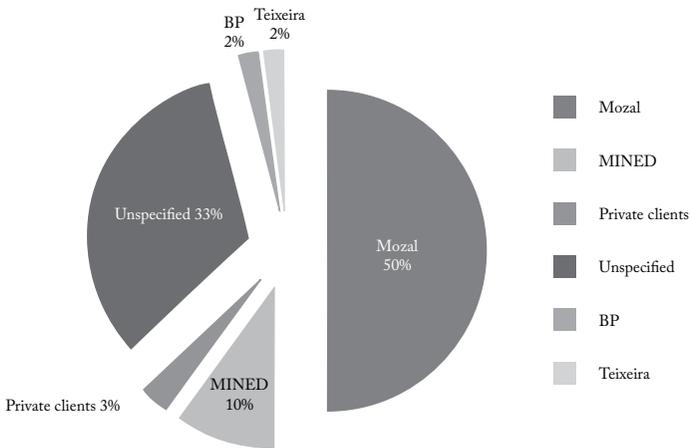
Source: Mandlate 2013

Figure 4: Evolution of the business volume of Company A, 2001-2007



Source: Mandlate 2013

Figure 5: Composition of the client portfolio of Company B, 2000-2011



Source: Mandlate 2013

The possibilities for the diversification of markets are limited in a narrowed economy and do not solve the problem of concentration. The graphs in Figures 4 and 5 show that the state is the second-most important client of the companies studied, serving as a cushion against the risk of losing the linkage with a large FDI project. In the case of Company A, Mozal accounts for 50% of the business volume, and the public sector accounts for the other half of the business volume. In the case of Company B, in the period from 2000 to 2011, Mozal accounted for 50% of the business, the Ministry of Education for 10%, and the other ten main clients for 7% among them.

Why is the concentration of business volume in a large FDI project a problem?

The concentration of business in the large FDI projects is a problem because it is associated with other relevant factors.

Firstly, national companies depend on FDI projects – which have a limited time horizon – in a context where not many alternative markets exist in the economy. Most of the large FDI projects are oriented towards the exploitation of non-renewable natural resources. Their useful life is limited by the size of the reserves of the resources exploited. This implies that, with regard to generating industrial capacity and industrialisation, national companies which link to these projects must have a perspective of capacity building to become independent of these projects in the long term (Castel-Branco 2010).

Secondly, the national companies studied concentrate their activities on providing basic services for the large FDI projects, which, although they demand high standards of quality, safety and management, do not promote competitive capacities based on mastery of modern technologies. While, on the one hand, the national companies have weak initial capacities, on the other, the structure of the economy does not favour investment in capacity building of the companies. Owing to their weak initial capacity, the national companies need more time and resources to absorb the tacit component in technology transfer. At the same time, there are several factors which make the investment of national companies expensive, such as the high cost of financing, the greater risk of losing markets, and limited complementarities because of the weak development of the productive base, and complementary industrial infrastructures and services (Castel-Branco & Goldin 2003; Mandlate 2013).

Since the capacity building of national companies requires time and significant investment, it is possible to understand why, as Mehta and Jaspers (2008) explain, in the specific case of Mozal, promotion of the local component consisted more in finding a correspondence between the capacities of the local companies and the requirements of Mozal, without any particular focus on building the capacity

of national companies. The process had two phases: (i) identification of areas that were not essential for the business, such as gardening and maintenance, as opportunities for expansion of local content; (ii) the breakdown of contracts, identifying the minimum number of contracts which have to be allocated to local companies. The path chosen was to outsource the simplest activities. The companies have improved some management processes and have engaged in business opportunities without developing capacities and mastery over radically new technologies in the economy. This lack of dynamism in building their capacity threatens the prospects for long-term growth of the companies.

Thirdly, the growth of the national companies is vulnerable, even in the short term. The contract with Mozal has a discrete character (a duration of two to three years), and, as has been shown, companies run the risk of bankruptcy if the linkage is discontinued. Even if the linkage continues, the Mozal demand is unstable, since the project is linked to volatile international markets for primary products, which transmits the shocks to national suppliers. These shocks are more serious for national suppliers, since the contraction of Mozal's costs is done in a discriminatory way between national and foreign companies.⁵

The implications of the concentration of business volume in the large FDI projects
The concentration of the business volume affects the development possibilities of the companies and of the economy as a whole.

Firstly, the concentration of the business volume in the large FDI projects implies that, as from the moment when the project reaches its maximum capacity, the possibility of growth of the linked companies is limited. That growth is vulnerable given the linkage with the large FDI project. This threatens the sustainability of these companies and generates dependence of national capital on the external dynamics of capital accumulation.

Secondly, owing to the uncertainty and high risks associated with dependence on one client, the companies are more averse to investing in technological capacity building, particularly if it involves high fixed costs. The system of incentives in the economy does not favour investment in manufacturing capacity, which, by its nature, demands a greater scale of investment and longer periods for recovering the investment.

Thirdly, spillovers into the rest of the economy, one of the most important impacts expected from linkages with the large FDI projects, are limited due to the *concentration* of productive linkages around FDI, the duality of quality

5 Castel-Branco & Goldin 2003; Langa 2014; Mandlate 2013. The foreign companies have long-standing relations and are protected by contracts with the mother company, BHP Billiton. BHP Billiton is more interested in preserving its relations and in maintaining the financial health of the companies that provide equipment for Mozal, because these are more skilled in carrying out a vast range of services, including maintenance of the equipment supplied.

standards between the FDI markets and the traditional domestic market, and the dependence of the companies on imports.

Dynamic 2 – diversification of activities with loss of industrial specialisation

To encourage the continual expansion of business, and to overcome the limitation and vulnerability of markets, companies adopt an alternative diversification strategy – that of activities. They diversify activities both within the company (Table 6), and as a way of applying capital in new companies (Table 7), exploring all business opportunities where they can easily enter.

Table 6: Patterns of diversification within companies A, B, O and P

Company	A	B	O	P
Initial specialisation	Trade in computer equipment	Production of agricultural equipment	Engineering	Industrial services
Current package of products	Industrial maintenance	Metallic structures for construction	Engineering	Industrial services
	Small-scale metallic structures	Industrial maintenance and project management	Industrial maintenance	Tanks and tubing with distribution
	Computer services for the public sector	Sale of mining equipment	Retail trade	
			Construction	
Real estate				

Source: Mandlate 2013

Table 7: Pattern of diversification of activities by means of capital in companies A, B and O

A	B	O
Transport and hire of vehicles	Trade, investment, economic consultancy, intermediation	Commerce and import/export of miscellaneous goods
Industrial cleaning	Financial activity	Civil construction and public works
Production of polyethylene	Industrial services, recruitment and training of staff	Manufacture of chalk
Trade in pharmaceutical products	Services in mechanisation for agriculture	Trade and import/export of building materials and metal fittings
Industrial maintenance	Engineering consultancy services	Engineering industry, construction, export/import
systems for electronic processing of information	Supply and maintenance of renewable energy systems	

Source: Mandlate 2013

The tables above show how Company A has advanced to a range of technologically distant activities, with resort to partnerships with foreign companies such as computer services for the public sector and industrial maintenance. At the same time, the company is investing in other enterprises oriented towards the trade in pharmaceutical products, transport services, industrial cleaning, and the final phase

in the production of polyethylene based on imported inputs. However, looking at the nature of the company's activities, it can be noted that, in this context, the joint ventures do not necessarily lead to the transfer of technology. For example, in the computer sector, the company imports the technology and the equipment, and the number of workers in its teams varies greatly. It operates more as a local facilitator of contracts and is charged with training users and installing equipment.

Company B initially dominated the entire production process for making agricultural equipment, but then entered into the final stages of fragmented production processes dependent on imported technology and inputs, such as the sale of mining equipment and industrial maintenance services. At the same time, the company reallocated its resources to other companies, oriented towards activities such as intermediation, trade, investments and financial services.

Company O, initially oriented towards engineering, diversified into activities such as wholesale and retail trade, construction and real estate, both within the company and through investment in new companies.

Only the evolution of Company P shows a different pattern. Its diversification was negatively affected by the end of the joint venture with its foreign partner, which also explains why this company experienced slower levels of growth.

It is notable that the national companies diversify activities within a certain pattern, exploring opportunities to sustain growth with lower costs and fewer risks, and preferring services where there is greater flexibility to reorient activities and lower fixed costs. The companies advance to technologically distant and basic services, activities of a speculative/rentier nature, and final phases of the production chain dependent on imported inputs and equipment. The loss of industrial specialisation is consistent with that found in the study of Warren-Rodriguez (2010), which noted the reduction in complexity of the productive processes in the engineering sector and the weakening of its base of accumulation of skills and technological capacities. This pattern of diversification of activities of the companies is determined by the system of incentives in the economy. The companies' strategies are being led by the logic of capital accumulation and the sharing of rents generated by the large FDI projects. And, in this case, they do not lead to the accumulation of relevant industrial capacities.

Implication of the pattern of diversification of activities

The pattern presented above of diversification of activities in the companies has implications for the accumulation of industrial capacities in the companies and in the economy as a whole.

Firstly, it is notable that this diversification leads to discontinuing industrial specialisation and to the disappearance of various phases of production in the economy due to fragmentation of the productive processes.

Secondly, this pattern of diversification produces a weak incentive for the technological effort of companies. The growth of the companies is sustained by markets that are attractive but not very demanding technologically. For example, the study found that the first companies which managed to establish linkages, without the help of linkage programmes, and which currently dominate markets where their competitors are unable to enter, are not the same companies which succeeded in having continual linkages with Mozal. This indicates that, in this case, the technological capacities of the national companies are not the decisive factor for the continuity of linkages and access to the markets of the large FDI projects.

Thirdly, the diversification of activities within the scope of basic services makes it more difficult for the companies to achieve economies of scale and to generate the industrial specialisation necessary for the articulation of productive processes. The diversification of the economy is not equal to the sum of diversification of the companies. The diversification of the economy depends on the existence of various phases of the production chain in the economy and on the different specialisation in various companies, which generates the need to articulate various activities between them. The pattern of diversification of activities of the companies studied is not compatible with the accumulation of industrial capacities that leads to the diversification of the economy.

Conclusions

The study shows that, from the experience of national companies with upstream linkages with Mozal, the linkages with large FDI projects in themselves do not represent a basis for broad and sustainable growth of the companies, and the growth of the companies linked with the large FDI projects does not necessarily generate the dynamics necessary for the industrialisation of the economy. Given the structural pressures of the economy, national companies do not necessarily follow the strategy of accumulation of industrial capacities to sustain their growth. In the current context, the growth of the companies is linked with diversification into activities which make it possible to explore opportunities for rents with the large FDI projects. Without dynamics alternative to those of the large FDI projects, the linkages with large FDI projects tend to reproduce the narrow character, dependent on external dynamics, of the productive base. This implies that, to alter this picture and promote diversification of the economy,

an industrial policy is needed that is linked with broader development goals and which promotes specific industrial capacities and poles of industrialisation beyond the large FDI projects. Experience shows that, on the one hand, there is no basis for assuming that linkages between large FDI projects and national companies happen automatically. On the other hand, linkages with large FDI projects do not, in themselves, generate the industrial capacity needed for wide-ranging industrialisation and promotion of the country's development goals. A selective industrial policy is a requirement for fitting the large FDI projects into the industrialisation of the country.

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Part 2

Trends and reflections on
private investment

PRIVATE INVESTMENT TRENDS IN MOZAMBIQUE: QUESTIONS FOR REFLECTION¹

Nelsa Massingue

Introduction

In recent years, Mozambique has recorded a significant increase in the flows of national and foreign private capital across the country and in sectors such as agriculture, industry, tourism, mineral resources and energy. Thus, the questions raised are: Firstly, if the levels of private investment have risen so rapidly, where does this capital come from? Secondly, what are the trends in private investment in Mozambique? Thirdly, what are the dynamics and patterns of this private investment? Finally, what implications do these patterns have for the national economy?

This paper seeks to explore the four previous questions. For this purpose, the paper is based on the analytical framework of the 'extractive economy' (Presented by Castel-Branco 2010) in order to explain how the Mozambican economy functions. Its main characteristics are: (i) specialisation in the production and export of primary products (without or with limited processing); (ii) lack of coordination and poor linkages between productive activities; (iii) a focus on foreign markets for the export of primary products; (iv) concentration and narrowing of economic and productive activities; and (v) limited linkages between investment and domestic-bank financing.

¹ This paper is based on the more general analysis undertaken in the article by Massingue & Muianga 2013.

The central argument is that the extractive nature of the economy tends to be consolidated in various activities undertaken, of which private investment is a part, and this tends to influence and be influenced by the existing economic dynamics. To sustain this argument beyond this introduction, the paper is divided into three sections. Following this introductory section, the second section analyses and discusses the trends and patterns of private-sector investment based on the data on private investments approved by the Centre for the Promotion of Investment (CPI). The third section makes a comparative analysis of the patterns and trends of investment with and without mega-projects. Finally, the fourth section presents some general considerations.

National private investment trends

This section analyses the trends in private investment in Mozambique and its characteristics, based on the private investment approved by the CPI from 1990 to 2011. Approved private investment is used as a proxy to analyse the trends and dynamics of investment owing to the difficulties in accessing systematic and long-term information on investment that has in fact been made. This could pose some limitations. Despite the limitations, the use of investment intentions is particularly interesting in that it shows what activities national and foreign private investment intends to invest in, which has implications for patterns of production and trade in the future and their relationship with public investment plans and the domestic financing of productive activity. Another important aspect in the use of this data (which can be seen in some detail indicated in the paper) is the fact that the structure and pattern of the approved investment are consistent with the structure and pattern of production and trade (concentrated, disjointed and with poor linkages with productive dynamics and internal markets).

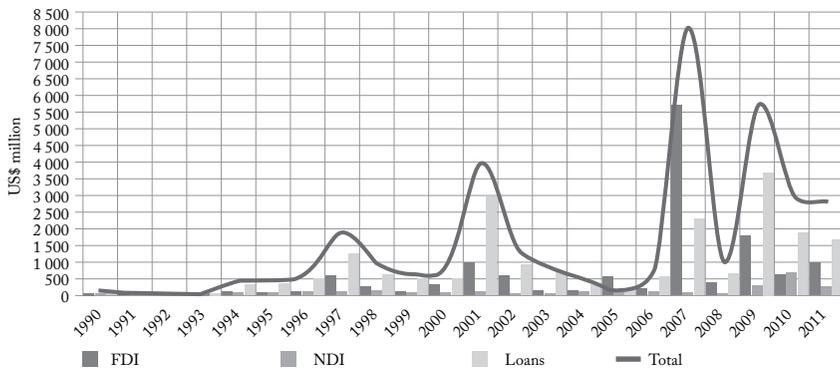
Concentration of investment in mega-projects aimed at exports

Data from the CPI for the period 1990 to 2011 show that, of the 3 408 investment projects approved, amounting to US\$ 35 759 billion, national direct investment (NDI) represented about 6% of the total private investment approved, foreign direct investment (FDI) represented 37% and loans represented 57%. Although the figures for loans are not disaggregated in the CPI data (i.e. broken down into loans made by national and by foreign banks), it is possible, by looking at the proportion of FDI and NDI in the total of approved investment, to state with some certainty that the greater proportion of the loans come from foreign banks,

very possibly from the countries where the FDI came from. During this period, the allocation of the volume of investment in sector terms was 29% for mineral resources and energy, 25% for agriculture, 18% for industry, 9% for tourism, 8% for transport and communications, and 11% for the remaining sectors.

The graph in Figure 1 shows that the pattern of investment, based on intentions over the period under analysis, is very irregular, with successive periods of peaks and troughs. These characteristics are justified by the combination of two factors: the concentration of investment in a small group of mega-projects and the bias in the data caused by using intentions in respect of approved investment instead of investments in fact made. With the exception of the years 1994, 1995, 1996 and 2011, the periods of peak investment intentions coincided with the approval of mega-projects.

Figure 1: Total private investment approved by source, 1990–2011



Source: CPI database

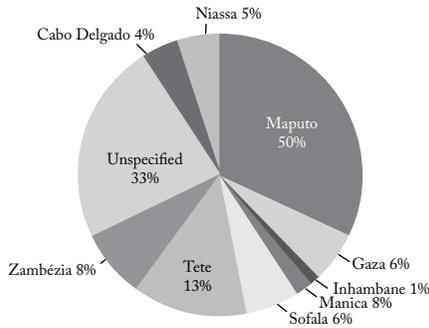
If we remove the mega-investment projects from the analysis, and if, because of their characteristics, we assume minimum linkages between some small- and medium-scale investment intentions and those of the mega-projects, the investment scenario becomes substantially different. This question will be better dealt with in the following section which analyses approved investments with and without mega-projects.

Geographical concentration of private investment

There is also a concentration of investment at geographical level. For example, about 32% of the total investment approved in the period under analysis was concentrated in Maputo, followed by Nampula, with 23%, Tete with 13% and

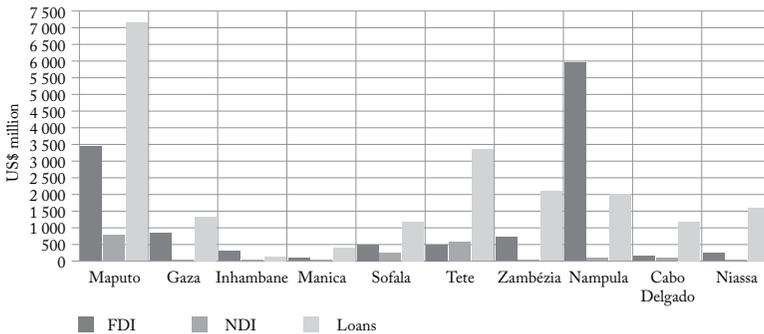
Zambézia with 8%, as shown in the graphs in Figures 2(a) and 2(b). There are specific factors which determine the volume of investment in the different parts of the country. The levels of concentration of investment intentions in these provinces are, in part, explained by the economic dynamics occurring locally, and by the existence of natural resources, infrastructure and services.

Figure 2(a): Total private investment approved by province, 1990–2011 (as a % of total investment approved)



Source: CPI database

Figure 2(b): Private investment approved by source and by province, 1990–2011



Source: CPI database

For example, while investment in Tete, Zambézia and Nampula is determined by the existence of natural resources (minerals, land, forests, etc.), investment in Maputo is determined by the quality and availability of infrastructure and services (roads, banks, commercial network, transport and communications, etc.) compared with other parts of the country. Furthermore, over the years, it is possible to verify

that the investment intentions in banking (Amarcy & Massingue 2011), insurance and leasing, in services, in construction and in industry are also concentrated in Maputo province, suggesting a weak possibility of rapid development of productive capacities in other regions of the country, lack of coordination, and weak linkages between productive activities.

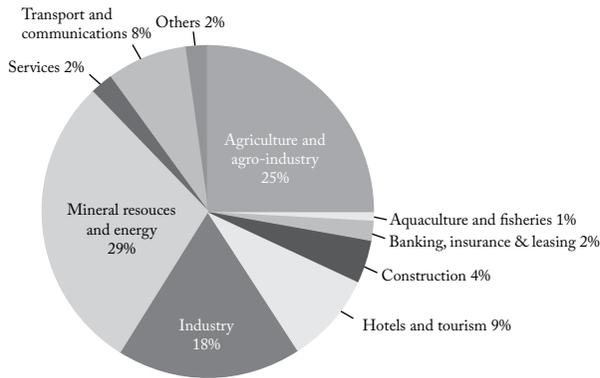
Concentration of investment by sectors and economic activities

In general, as happens with the irregularity of investment intentions, the sources of investment (FDI, NDI and loans) are also distributed in an irregular manner, following the same pattern of concentration and allocation of investment. While FDI and loans are concentrated in mineral resources and energy, agriculture and agro-industry, and industry, NDI tends to be concentrated in sectors such as banking, insurance and leasing, hotels and tourism, transport and communications, services and construction. The concentration of NDI in these sectors strengthens the argument that national private capital tends to invest more in services, some of which support extractive activity. This analysis may give some indications about the extent to which national capital may be linked with the extractive dynamics of the economy.

In the case of agriculture, although it displays high levels of approved investment, much of this investment is focused on forestry exploitation, essentially on timber with minimal processing for export. In the case of mineral resources, the dynamics are around the exploitation of coal and heavy sands.

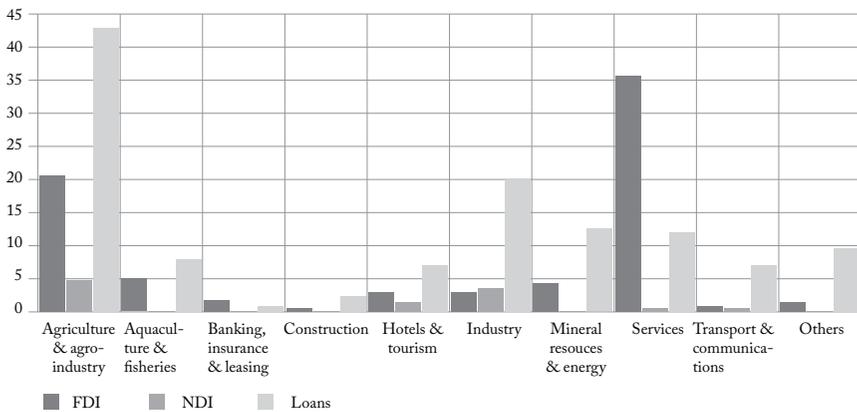
The composition and dynamic of private investment intentions are concentrated around sectors such as mineral resources and energy, and agriculture and agro-industry, just as happens with other activities such as, for example, production, trade, infrastructure and services. The graph in Figure 3(a) shows that agriculture and agro-industry, and mineral resources and energy, absorbed more than 50% of total investment intentions in the period under analysis. Most of this investment was financed by external resources (see the graph in Figure 3(b)). This situation suggests that the importance and potential of these sectors in attracting foreign investment have been very clear. However, it is important to stress that the concentration of investment in these sectors goes much deeper, in that, within them, the investment is concentrated in certain activities, almost all of which are produced for foreign markets (aluminium, forestry, gas, coal, heavy sands, etc.).

Figure 3(a): Total private investment approved by sector ,1990–2011 (as a % of total private investment)



Source: CPI database

Figure 3(b): Private investment approved by sector and source, 1990–2011 (in %)



Source: CPI database

Concentration of investment in primary products

In general, in the different sectors, and in mega-projects in particular, the approved investment is also concentrated in primary activities. Hence, the sector concentration of investment lies in the type of activities for which the investment is allocated. An analysis of the investments by sector of activity shows that the sectors of agriculture and agro-industry and mineral resources and energy by province are those which concentrate high sums of investment in US\$ (see Table 1). The provinces which recorded investment sums larger than US\$ 500 million in these sectors were Maputo, Nampula, Tete, Zambézia and Gaza. A

deeper analysis of these provinces suggests that: (i) the provinces with large amounts of investment are those which have at least one mega-project; (ii) of the total investment sum, the mega-projects tend to absorb more than 90% of the total investment in the province, with the exception of Maputo province, where the figure is 60%; (iii) these mega-projects are linked to the exploitation of natural resources and are aimed at exports with very little processing, or none at all (Langa & Mandlate 2013).

Table 1: Investment approved in agriculture and agro-industry, and in mineral resources and energy

Province	Agriculture (millions of US\$)	Mineral resources and energy (millions of US\$)	% of MP (mega-project) in total investment in the province	Number of mega-projects
Maputo	902	307	60%	1
Gaza	720	1 212	99%	1
Inhambane	37	13	–	0
Sofala	957	38	–	0
Manica	390	13	–	0
Zambézia	2 739	7	90%	1
Tete	296	3 435	99.9%	2
Nampula	2 457	5 104	90% & 98%	2
Cabo Delgado	254	0	–	0
Niassa	270	0.2	–	0

Source: author's calculations based on CPI database

Table 1 shows that, for the provinces where there is at least one mega-project, this absorbs more than 90% of the total sector investment approved in the province, excluding Maputo province. For example, in the case of Nampula province, between 1990 and 2011, 90% of the total investment approved for the sector of agriculture and agro-industry was absorbed by a single project (Lúrio Green Resources) linked to forestry exploitation, to the value of US\$ 2 209 billion. In the sector of mineral resources and energy, the project Ayr Petro de Nacala, to the value of US\$ 5 000 million, represents 98% of the total investment approved in this sector for the period under analysis. This project was for the construction of an oil refinery. Implementation was postponed due to lack of funding (A Verdade 18/03/2009). This scenario shows that both in agriculture and in mineral resources there is a trend towards concentration in the exploitation of natural resources, particularly minerals and energy, and forests.

Analysis of the approved private investment, with and without mega-projects²

A question that could be raised in the analysis of investment with and without mega-projects is what happens to the weight of NDI, FDI and loans if we take out the mega-projects. Hence understanding the pattern of investment without the 13 mega-projects (see Table 2) could probably raise other interesting questions for analysis. In the period 1990 to 2011, if we remove the mega-projects, the total sum of the approved projects comes to US\$ 15 617 billion (i.e. 44% of the total approved investment, including the mega-projects). NDI accounted for about 10% of total approved private investment without mega-projects, FDI for 30%, and loans for 59%.

Table 2: Mega-projects approved in Mozambique in the 1990–2011 period

Project	Sector	Year	Amount (in US\$ million)	% of total investment approved in the year
MOZAL I	Industry	1997	1 340	70%
MOZALII	Industry	2001	1 000	89%
Iron and steel	Industry	2001	1 100	
Pemba Bay – Wildlife and Marina Resort	Hotels and tourism	2001	968	
Ponta Dobela	Transport and communications	2001	501	
Limpopo Corridor Sands	Mineral resources and energy	2002	1 200	78%
Vodacom MC	Transport and communications	2003	567	66%
Coal of Moatize	Mineral resources and energy	2007	1 535	87%
Procana	Agriculture and agro-industry	2007	510	
Ayr Petro Nacala	Mineral resources and energy	2007	5 000	
Portucel Moçambique	Agriculture and agro-industry	2009	2 311	79%
Lúrio Green Resources	Agriculture and agro-industry	2009	2 209	
Hidroelétrica de Mphanda Nkuwa	Mineral resources and energy	2010	1 900	61%
Total of the mega-projects (MPs)			20 142	
Total approved investment (1990–2011)			35 759	
% of MP in total approved investment (1990–2011)			56%	

Source: author calculations based on CPI database

Note: For purposes of analysis, mega-projects are those with a total investment of US\$ 500 million or more.

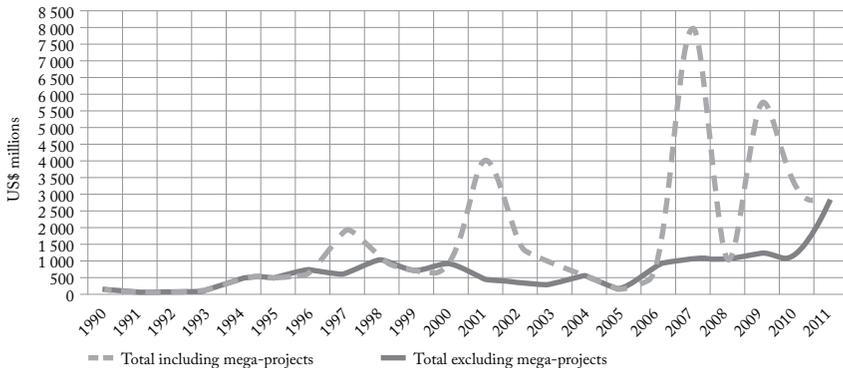
The total amount of investment in the 13 projects, shown in Table 2, is US\$ 20 141 billion, which accounts for 56% of the total investment approved in the period under analysis. Furthermore, for every year in which the mega-projects were approved, they amounted to slightly more than 70% of the investment approved in those years, except for 2003 and 2010, when the intentions of investment in mega-projects were 66% and 61%, respectively. This analysis

² It is important to mention that the 13 mega-projects analysed in this section are those that were approved by the CPI and do not include other mega-projects approved, for example by the Council of Ministers.

suggests that the levels and intentions of investment were, throughout the period under analysis, relatively stable when the mega-projects are not considered. In turn, this information confirms the argument that investment (at least intended investment) is concentrated in a small group of mega-projects focused on the exploitation of natural resources and the marketing of primary products for export, and that this has implications for the dynamics of the concentration of production and trade (Castel-Branco 2013; Castel-Branco & Mandlate 2012; Massingue 2012). Furthermore, CPI data referring to the period 1990 to 2011 show that, when the 13 mega-investment projects are excluded, the remaining 3 395 projects approved in the period under analysis amounted to US\$ 15 617 million with the potential to create 373 648 jobs, as against the 24 477 potential jobs from the 13 mega-projects.

The graph in Figure 4 shows the difference in investment intention trends with and without the mega-projects. From this graph, it can be seen how dependent the investment intentions are in relation to mega investment projects. It gives a general idea of how investment would behave without mega-projects and, probably, what its implications would be. An important fact that should be mentioned is that the aim of almost all the mega-projects mentioned here is the production and later export of primary products – and this is one of the main characteristics of the ‘extractive economy’.

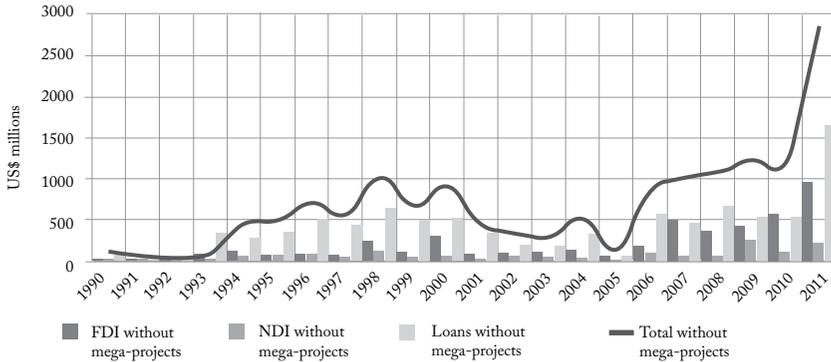
Figure 4: Total private investment approved with and without mega-projects (1990–2011)



Source: CPI database

The graph in Figure 5(a) shows that, with the exception of 2011, approved investment by source, excluding the mega-projects, did not exceed US\$ 1 000 million a year. Likewise, the total investment approved showed a non-continuous trend, but which, up until 2006, did not exceed US\$ 1 000 million dollars a year.

Figure 5(a): Private investment in Mozambique without mega-projects, 1990–2011



Source: CPI database

Only from 2006 was there a rapid increase in the total approved investment, which rose to almost triple the previous figure, that is, to approximately US\$ 3 000 millions in 2011. This increase was caused by the number and value of investment projects in agriculture, construction, hotels and tourism, industry, and transport and communications.

Table 3 shows that, despite the increase verified in agriculture and agro-industry, and in the industrial sector, these investments were concentrated in activities such as forestry, biofuel, cement and beer. Hence much of this investment still does not respond to one of the main problems of Mozambique, which is food production and the development of the food industry. This ensures that the country remains dependent on imports of major food products such as grains, meat, and other processed foodstuffs.

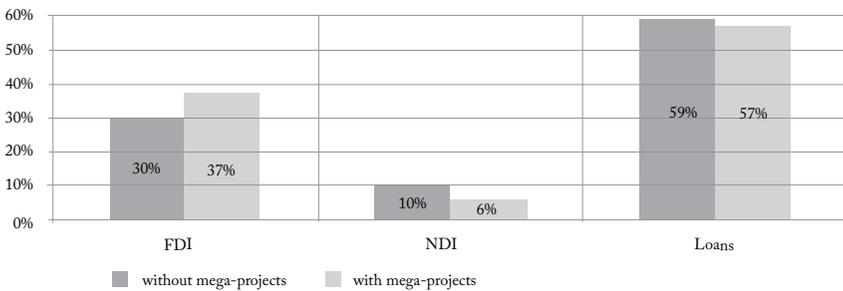
Table 3: Analysis of the 2006–2011 period

Sectors	Overall value	% of total	No. of projects	Observations
Agriculture and agro-industry	2 277	28%	189	Of which about 63% results from 10 projects approved for forestry and biofuel activities
Aquaculture and fisheries	67	1%	20	
Banking, insurance and leasing	182	2%	15	
Construction	783	10%	123	
Hotels and tourism	1 364	17%	275	
Industry	1 383	17%	359	Of which about 45% is absorbed by 10 projects approved for the cement and drinks industries
Mineral resources and energy	234	3%	8	
Services	737	9%	150	
Transport and communications	969	12%	68	
Others	219	3%	72	
Total	8 215		1 279	

Source: Author calculations based on CPI database

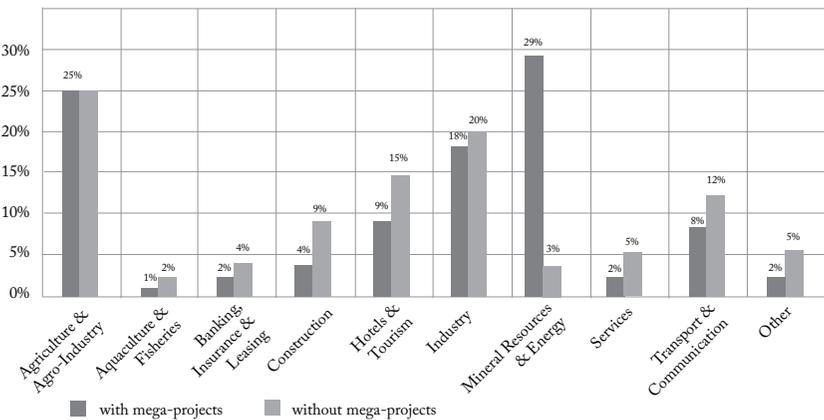
The graph in Figure 5(b) shows that, when the 13 investment projects mentioned in the previous section are excluded from the analysis, the percentage of approved private investment by source in the total investment figure shows a different trend: the proportion of FDI in the total investment falls by 7%, while NDI rises by 4%. The graph in Figure 5(c) shows that, during this period, the allocation of the volume of investment by sector, when the mega-projects are excluded, fell by 3% in respect of mineral resources and energy, while, in the other sectors, it increased – by 20% in industry, 9% in construction, 15% in tourism, 5% in services, 12% in transport and communications, and 5% in the remaining sectors, with the exception of agriculture and agro-industry (the weight of which remained unchanged at 25%). Hence, when the mega-projects are removed from the analysis, almost all sectors tend to increase their proportion in the total investment.

Figure 5(b): Weight of investment by source with and without mega-projects, 1990–2011



Source: CPI database

Figure 5(c): Weight of investment by sectors of activity with and without mega-projects, 1990–2011



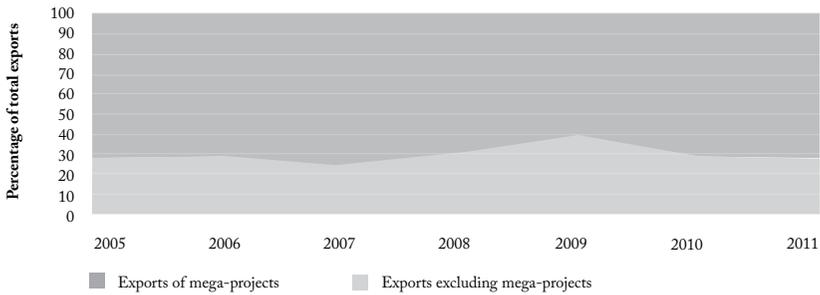
Source: CPI database

The analysis of investment trends without mega-projects makes the framework of approved private investment more regular and uniform, that is, if we consider the existence of minimal linkages between the intentions of mega-projects and small- and medium-sized projects. Nonetheless, the question that remains to be answered is how much of the approved private investment in the analysis without mega-projects may be linked with the dynamic of the mega-projects. This information would allow a better understanding of the real basis of investment in Mozambique – for example, what is the private sector willing to invest in and what are the implications of this for the development of productive capacity and for the financing of the economy.

A further question raised in this paper is that many of these investment projects have their markets abroad. Consequently, their contribution to Mozambique's exports tends to be very high over the years, putting the trade balance into surplus. Many studies carried out by the Institute for Social and Economic Studies (IESE) have shown that this surplus does not have a very significant impact on the current account. This is because the capital account is in deficit and this deficit tends to outweigh the positive effect of the trade balance, ensuring that the overall balance remains in deficit. The reason for this, and it is a matter for concern, is the fact that mega-projects in Mozambique benefit from high tax incentives and free repatriation of capital. Very little is reinvested in the country.

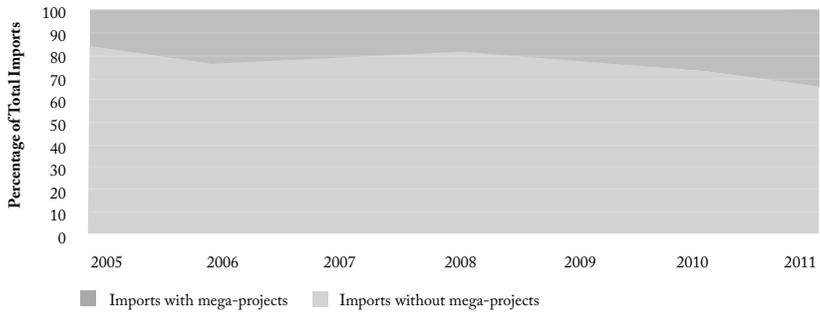
The graph in Figure 6(a) shows that the weight of exports without mega-projects is relatively static, while the graph in Figure 6(b) shows that the weight of imports without mega-projects is relatively large. The factors determining how competitive a country is include, among others, its degree of industrialisation and diversification of production, since this tends to reduce price fluctuation and increases export opportunities. Mozambique is competitive in primary products, but not very diversified beyond these. On the other hand, the trend is for the mega-projects to tend to contribute more than half the country's exports. For example, in 2011, the mega-projects accounted for 72% of Mozambique's exports (Massingue 2012).

Figure 6(a): Exports with and without mega-projects, in percentages



Source: BoM (Bank of Mozambique) data

Figure 6(b): Imports with and without mega-projects, in percentages



Source: BoM (Bank of Mozambique) data

Final considerations

In the introduction to this paper, four questions were raised. Firstly, if the levels of private investment have risen so rapidly, where does this capital come from? Secondly, what are the trends in private investment in Mozambique? Thirdly, what are the dynamics and patterns of this private investment? Finally, what implications do these patterns have for the national economy? In short, the answers to these questions can also be given in four parts.

Firstly, the pattern of private investment in Mozambique is characterised by the fact that most capital flows come from external sources, FDI and foreign loans. In general, agriculture and agro-industry, industry, tourism, and mineral resources are the sectors which have attracted most investment and show where the private sector is interested in investing in Mozambique.

Secondly, the paper has also shown how much the approved private investment is concentrated. The dynamics of the approved investment strengthen and reproduce the current patterns of concentration and lack of coordination of production and of trade. In general, the productive structure, particularly the structure of industrial production, is mostly centred – and has been for more than half a century – on the production of primary products which are unprocessed (or with little value added) and intended for export (e.g. sugar, tobacco, cotton, timber, aluminium, gas, heavy sands, coal, etc.). This trend towards concentration and disconnection of production and trade explains, and is explained by, the concentration of investment, of infrastructure and of services. The analysis has also shown that FDI is highly correlated with mega-projects and that NDI is less concentrated than FDI.

Thirdly, because Mozambique is regarded as a country rich in natural resources, access to these resources has become the source of private accumulation and little has happened outside of these dynamics. The dependence on mega-projects makes the national economy and the national business class very volatile and vulnerable. Since these projects are concentrated on natural resources and some of these are not renewable, what will become of Mozambique and of the local business class when these resources are exhausted? How does one guarantee that the exploitation of these resources today can create new, independent resources which allow more sustainable economic, political and social development?

Finally, the fact that levels of investment are tending to grow every year does not imply any improvement in the conditions of operation of the private sector. But this has implications, since a great part of the upstream of this investment consists of foreign capital and tends to influence, and be influenced by, the domestic private sector.

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CHINESE INVESTMENT IN MOZAMBIQUE: CHARACTERISTICS AND TRENDS

Sérgio Chichava

Introduction

In Mozambique, just as it is happening to some extent throughout the African continent, it is the presence of China, of all the so-called ‘emerging’ countries, which has stood out and has sparked off the most debates in the various discussion forums. Since China is regarded as an ‘historic partner’ motivated by the ‘genuine intention’ of helping Mozambique and the rest of Africa, the Mozambican government has attached great importance to cooperation with China. For example, current President of the Republic Armando Guebuza has several times reaffirmed that those who criticise the relationship between the two countries, claiming that China is in Mozambique only because of Mozambique’s natural resources, do so out of envy or bad faith (Manhiça 2011; AIM 2006). The reaction of the Mozambican president should be understood in relation to critical voices raised against the involvement of Chinese companies in various scandals, particularly in the contraband of timber, with the connivance of certain figures in the Mozambican political nomenclatura close to the ruling party.¹ This is without doubt one of the matters which has caused the most controversy, ensuring that some in Mozambican society are sceptical about the results of the partnership with China.

1 On this subject, see Mackenzie 2006

Statistics from the Centre for the Promotion of Investment (CPI)² in recent years show that the Chinese economic presence in Mozambique has been growing year after year, making this 'emerging economy' one of the ten main investors in Mozambique between 2007 and the present. However, this growth in Chinese foreign direct investment (FDI) in Mozambique is also characterised by an increase in partnerships between investors from that Asian country and figures in the Mozambican political and state nomenclatura, some of them involved in obscure business deals, which has also led to criticism and apprehension in Mozambique. Likewise, some Chinese investors have reaffirmed the need for 'good connections' or for entering into partnerships with people linked to power in order to do business in Mozambique as being one of the requirements for success.

In analysing the sector and regional distribution, based on the information from the CPI on Chinese investment projects approved between 2000 and 2013, on the one hand, and on interviews with some Chinese business people, on the other, it is intended: (i) to show the trend, impact and characteristics of Chinese FDI in Mozambique during this period; and (ii) to show how Chinese investors perceive the business environment in Mozambique.

It should be stressed that this just refers to investment projects submitted to the CPI for approval, and not to all Chinese investment projects in the country during the period under study. This is because submitting an investment project to the CPI for approval is optional, since the opening and registration of a company and the subsequent obtaining of a licence for its activity, from the Ministry of Industry and Trade (MIC) or from local state bodies and municipalities, is enough to do business in Mozambique (Council of Ministers 2004). The advantage of submitting the project to the CPI lies in obtaining the tax and customs incentives enshrined in Law no. 3/93 (Investment Law) and in the Fiscal Benefits Code (Council of Ministers 2002).

Certainly, for a more complete assessment of the trends and impact of Chinese investment in Mozambique, the joint analysis of data from the various Chinese investment projects submitted in the same period to the various bodies mentioned above would be necessary. An analysis as comprehensive as this was not possible for this paper, but the data provided by the CPI do give an idea of the characteristics and trends of Chinese investment in Mozambique.

The paper is divided into three sections. Following this introductory section, the first section maps Chinese FDI in Mozambique in the period from 2000 to 2010, that is, the period running from the first China–Africa ministerial summit, held in Beijing in October 2000 (which concluded with the creation of

2 State body subordinated to the Ministry of Planning and Development (MPD) and responsible for coordinating the promotion, analysis, follow-up and verification of foreign investment in Mozambique.

the China–Africa Cooperation Forum – FOCAC), to the celebration, in 2010, of the tenth anniversary of this institution. The second section analyses its main trends after this period, and the third section discusses the alliance between the Mozambican political elite and Chinese capital, with a focus on the timber sector.

Chinese investment in Mozambique: Weight, significance and characteristics

As already mentioned, various Mozambican official studies and sources point to China as one of the countries that is investing the most in Mozambique. What is important here is to show the significance of this investment, since this analysis allows us to have a clear idea not only of the pattern of Chinese investment in Mozambique, but also of its trends. In the final analysis, this allows us to better understand the Chinese presence in Mozambique. In the period 2000 to 2010, Chinese investment in the country amounted to about US\$ 216.5 million, corresponding to 2% of the total foreign investment at national level, which, in the same period, amounted to about US\$ 10.6 billion. If all the investment projects approved had been implemented, they would have generated 9 914 jobs, equivalent to 5% of the total number of jobs created in the same period by the rest of the FDI (see Table 1).

Table 1: Number of projected jobs created by investment in approved projects

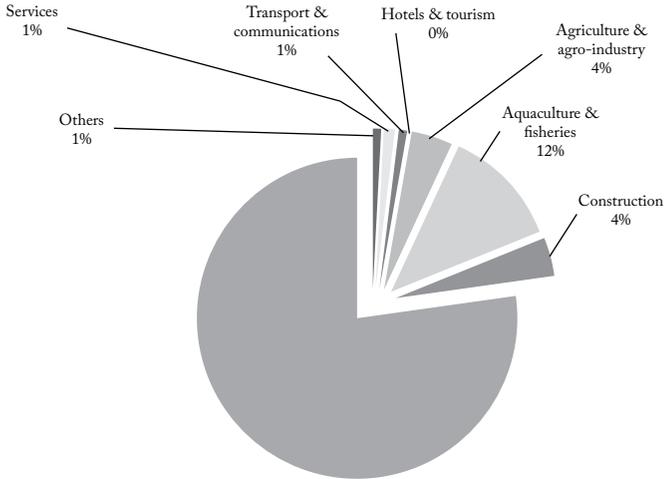
Country	Jobs		FDI	
	Amount	%	Amount	%
Others	207 860	95%	10 612 290	98%
China	9 914	5%	216 524	2%
Total	217 774	100%	10 828 814	100%

Source: CPI-2000-2010

In sector terms, during the period 2000 to 2010, much of the Chinese investment in Mozambique was concentrated in the manufacturing industry (77%), followed by aquaculture and fisheries with 12%, and agriculture, agro-industry and construction with 4% (see graph in Figure 1).

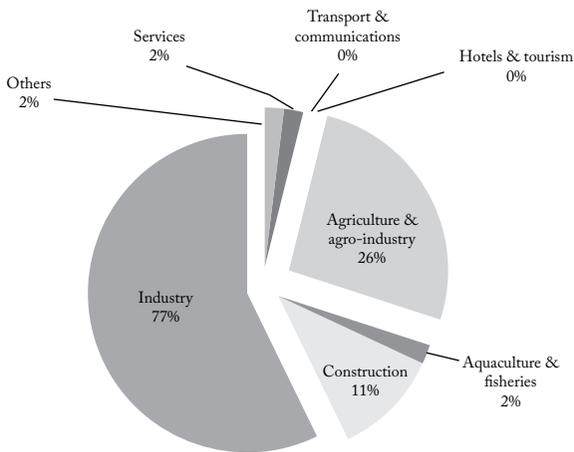
Between 2000 and 2010, the manufacturing industry absorbed the greater part of the employment generated by Chinese investment (57%), followed by agriculture and agro-industry (26%) and construction (11%) (see the graph in Figure 2).

Figure 1: Chinese FDI by sector (2000–2010)



Source: CPI 2000–2010

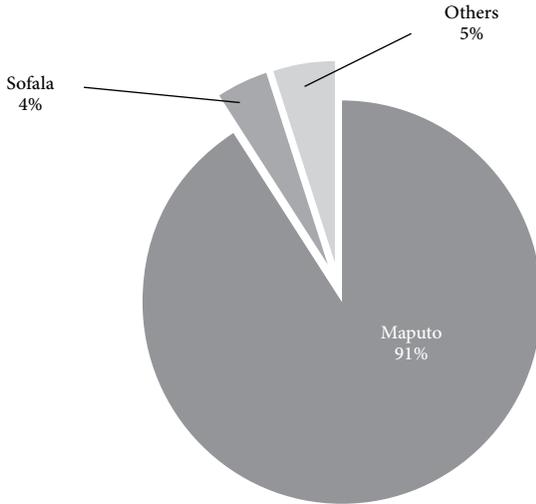
Figure 2: Employment generated by Chinese FDI (2000–2010)



Source: CPI 2000–2010

In regional terms, 91% of the Chinese investment was concentrated in Maputo, in southern Mozambique, followed by Sofala, in the centre, with just 4%. (see graph in Figure 3).

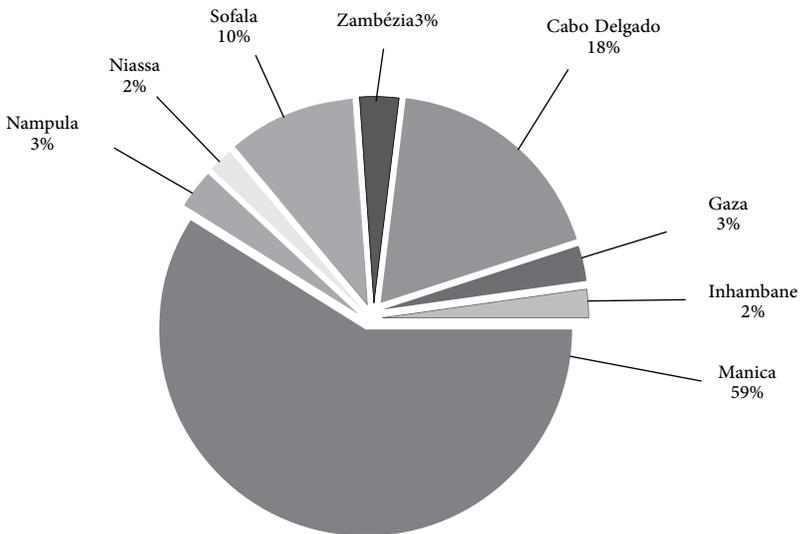
Figure 3: Chinese FDI by province (2000–2010)



Source: CPI 2000–2010

Likewise, most of the jobs created by the Chinese investment were concentrated in Maputo. In second and third position were Cabo Delgado and Sofala (see graph in Figure 4).

Figure 4: Employment per province generated by Chinese FDI (2000–2010)



Source: CPI 2000–2010

During the period under analysis (2000–2010), four investment projects, three in the industrial sector and the fourth in aquaculture and fisheries, accounted for about 80% of the Chinese FDI. Among these four, two stand out because of the alliance between Chinese capital and the new Mozambican bourgeoisie, constituted, as mentioned earlier, by figures close to the Frelimo Party. These four investments are: (i) the cement factory of the Africa Great Wall Cement Manufacturer, located in Magude, in Maputo province, an investment calculated at US\$ 90 million (FDI = US\$ 45 million) with the capacity to produce about 500 000 tonnes a year (This investment, approved in 2007, envisages the creation of 300 jobs.); (ii) the *CIF MOZ, Limitada*, cement factory, a joint venture between SPI – Management and Investments, S.A.R.L., which is the holding company of the Frelimo Party, and the China International Fund (CIF). (This factory, approved in 2008, will be built in Matutuíne, Maputo province, and the investment is estimated at US\$ 72 million (FDI = US\$ 71.99 million); (iii) the Hong & Binga Development Fishery Company, which, among various other activities, intends to develop industrial fishing and naval construction (The Hong & Binga Development Fishery Company represents an investment of US\$ 27 million (FDI = US\$ 26 million) and is forecast to create 80 jobs. It is an association between the Chinese company Poly Fuzhou Hongyong Pelagic Fisher Co. Ltd and Monte Binga, S.A., a Mozambican company 50% owned by the state and 50% by Mozambican generals on the reserve list who belong to Frelimo (Boletim da República 2009). Apart from aquaculture and fisheries, Monte Binga, S.A. is involved in other activities, such as, for example, the exploitation of gold and other minerals in Niassa province (Boletim da República 2010).); and; (iv) Henan Haode Mozambique Industrial Park, which seeks to set up a textile and clothing factory in Marracuene district. (This is valued at US\$ 26.5 million (FDI = US\$ 21.2 million), corresponding to about 55% of the total Chinese investment in this period. It was the largest Chinese investment project approved by the CPI in 2010.).

Mineral resources, construction and tourism: New foci of Chinese investment in Mozambique?

While it is not possible, based just on the CPI data, to have a complete idea of the trends of Chinese investment in Mozambique by cross-checking this data with other sources, it is possible to reach some conclusions. By proceeding in this way, the main conclusion is that, although everything indicates that the industrial sector is continuing to grow, between 2011 and 2013, mineral resources,

construction and tourism were the main target areas for Chinese investment in Mozambique.

Indeed, the state company Wuhan Iron and Steel Corporation (WISCO) was in discussions with the Australian company Riversdale Mining Limited (RML) to acquire 40% of the Zambeze coal project owned by Riversdale, to a total of US\$ 800 million,³ but apparently never went through. If the WISCO investment had gone ahead, it would have drastically changed all the data advanced so far, both in terms of volume and in terms of the sector or geographical location of the Chinese FDI, since it would have amounted to about four times the total Chinese FDI invested in the period under analysis. However, the entry of the China Kingho Group into a partnership with the above-mentioned Monte Binga company for coal mining in Moatize, Tete province, and of the China National Petroleum Corporation (CNPC) in the rush to find gas, by acquiring 20% of the shares of ENI in Area 4 of the Rovuma Basin, in Cabo Delgado province (ENI 2013), confirm the interest of the Chinese in mineral resources.

It should be mentioned that the China Kingho Group is also undertaking, in collaboration with the National Directorate of Geology (DNG), exploration in Tete and Niassa provinces in order to identify areas where coal occurs (GoM 2011). In addition to its interest in coal, the China Kingho Group is also interested in research on, and exploration for, petroleum, natural gas and other mineral resources.

Chinese interests are not limited only to gas and coal. Heavy sands are also on the list, as well as partnerships with the local political and state elites such as, for example, between John Kachamila and some Chinese business people through Quelimane High Titanium Salg. It should be added that Kachamila has other partnerships with Chinese business people, not only in the mining sector, but also in construction and agriculture through the companies CCM General Mining, Limitada, Construções CCM Limitada and Agrícola CCM.

In February 2011, it was reported that Chinese companies had just requested licences from the Mozambican state to prospect for, and later exploit, various mineral resources in different parts of the country. Gold, iron ore, tantalite, diamonds and limestone are the mineral resources for which the Chinese companies requested licences (Saúte 2011). This is the case, for example, with the Africa Great Wall Cement Manufacturer, a company which, in addition to intending to produce cement, has received licences to exploit limestone in the districts of Magude (Maputo province) and Cheringoma (Sofala province) (Boletim da República 2009), and heavy sands in Angoche district (Nampula

3 This partnership would have allowed WISCO to hold 8% of the shares of Riversdale Mining Limited.

province) (Boletim da República 2011a); with CIF Moz, *Limitada*, which intends to exploit limestone and clay in Matutuíne (Maputo province) (Boletim da República 2011b/c); with Sogecoa, which, apart from its involvement in hotels and the building industry (construction, hire of equipment, and vehicles), recently obtained licences for research on and exploration for, mineral resources, particularly gold, in Gorongosa and Chifunde districts in the Sofala and Tete provinces, respectively. In 2011, Sogecoa was proceeding to prospect for gold in Gorongosa district (*Notícias* 2011).

As for tourism, the investments which led to the building of the Golden Peacock Hotel, the largest and most modern hotel in Beira, with an estimated cost of US\$ 150 million, and the project which seeks to transform the Joaquim Chissano Conference Centre in Maputo into one of the most luxurious hotels in the country, at an estimated cost of US\$ 250 million, turned this sector into one of the most important destinations for Chinese investment in Mozambique.

In the period 2011 to 2014, the construction sector was essentially driven by the partnership between the Housing Promotion Fund and the Chinese company Henan Guoji Industry and Development Co. Ltd (HGI) for the construction of 5 000 houses at a cost around US\$ 250 million in the city of Matola.

When the automobile assembly plant of China Tongjian Investment Co. Ltd began its operations in 2014, Chinese FDI in the industrial sector took an important leap forward. Located in Machava, on the outskirts of Maputo, this undertaking is estimated at around US\$ 200 million. It is, without doubt, the largest investment ever in this sector in Mozambique (China Tongjian Investment Co Ltd 2013). The forecast indicated that this investment would create about 3 000 jobs, or 53.6% of the total employment produced by Chinese FDI in the industrial sector between 2000 and 2010. Likewise, if the report produced by the MPD in August 2010 is confirmed, according to which Chinese businesses intend to invest US\$ 13 billion in industry, tourism, mines, energy and technology in the period 2011 to 2015, this could make China one of the largest investors in Mozambique (MPD 2010).

When private interests prevail over public interests: The case of timber

While Chinese investment is growing, promiscuity with regard to the local political elite has been one of its main characteristics, as has been seen in several examples already cited. This situation has led some segments of Mozambican society to display scepticism as to the gains that may flow from these partnerships.

The most talked-about case is the illegal exploitation of timber, although, as previously mentioned, this exploitation can also be observed in other sectors. Easy to exploit, and without any need for high costs or state-of-the-art technology, timber has become in a very short period – and still in the absence of petroleum – the main product exported from Mozambique to China. In fact, in 2006, timber accounted for more than 90% of Mozambique's exports to China. In a list headed by Gabon, Mozambique was in sixth position out of the ten main exporters of timber to China (Canby *et al.* 2008). In the Southern African Development Community (SADC), Mozambique was surpassed only by Swaziland. In 2009, timber continued to be the main product exported to China, and, in 2013, China considered Mozambique as the main supplier of timber among African countries in terms of economic value. As the main product exported to China, timber is also on the list of Mozambique's main export products.

As well as Chinese businesses, the exploitation of timber also involves Mozambicans, a not negligible proportion of whom are linked to the country's political elite and the ruling party, and also to the opposition.⁴ Comparable only to the complaints about the violation of Mozambican labour norms by Chinese companies,⁵ the exploitation of timber has aroused lively controversy within Mozambican society. Indeed, Mozambican civil society organisations have been appalled at the way in which this resource is being exploited. They accuse the country's political elite (above all that linked to Frelimo) of exploiting timber, in connivance with Chinese business people, in an uncontrolled manner and with no respect for the norms in force in this sector. In 2006, a report ordered by the Zambézia Forum of Non-Governmental Organisations (FONGZA), entitled *A Chinese take away*, and dedicated to Zambézia province, one of the region's riches in forestry resources, accused important Frelimo leaders, including former President of Mozambique Joaquim Chissano and the former governor of Zambézia, the late Bonifácio Gruveta, of deforesting Zambézia in collusion with the Chinese (Mackenzie 2006).

Another report, dated 2008 and drawn up by three Mozambican civil society organisations, the Friends of the Forest Association, the Rural Mutual Aid Association (ORAM) and Environmental Justice (JA), stated that there was no longer any timber to exploit in Zambézia. It also stated that people linked to Frelimo were selling their licences to foreigners, making money without doing anything. This situation is not specific to Zambézia, since, across the country, cases

4 Afonso Dhlakama, the leader of Renamo, the main opposition party, has been reported as being a shareholder in Socadiv Holding Lda., a company specialising in the exploitation of timber and set up in 2007 – see *The Indian Ocean Newsletter* 2007.

5 The conflicts between Chinese companies and Mozambican workers are also among the negative aspects which have cast a shadow over relations between the two countries. Such companies have frequently been denounced both by the press and by civil society organisations. This situation is not very different from what has happened in other African countries.

are reported of violations of the laws (exploitation of timber beyond the limits established by law, and exportation of wood as unprocessed logs, thus breaking the law), corruption, and trafficking and contraband in timber. These situations led groups of Mozambican citizens to write publicly to President of the Republic Armando Guebuza — who is himself cited as having interests in timber — asking him to intervene. When the Chinese president visited Maputo in February 2007, some civil society voices and academics took advantage of the moment to denounce the situation. For example, Marcelo Mosse, of the Centre for Public Integrity (CIP), and the sociologist Carlos Serra wrote open letters to Armando Guebuza. The former, in addition to criticising the obscure process of illicit enrichment of the Mozambican political elite, in partnership with some Chinese companies, said cooperation with China was welcome if it was done transparently and was beneficial to the people of both countries and was not just a replay of a colonial situation (Mosse 2007). Serra demanded the immediate appointment of a commission of inquiry to investigate what was really happening in Mozambican forests.⁶ The independent press was not far behind in expressing opposition not only to this type of practice, and particularly the blessing for it given by figures in the local state and political power, but also to the criticism levelled by these figures against their opponents labelling them as ‘anti-Chinese’, as can be seen from this extract taken from *Savana*, one of the most important weeklies in Mozambique:

Mozambique should cooperate with all countries of the world, as long as this is of benefit to its development plans. But Mozambicans have the right to express their indignation when their natural resources are exploited in such an uncontrolled manner and it is wrong to think that they do so because they let themselves 'be fed passively by the centre' – by which is understood the West – as if Mozambicans [have] no ability to see and judge what is happening around them. The constant references to China have a lot to do with the repeated incidents involving citizens of that country. In the specific case of timber, it is a fact that China is its main destination. Citizens of that country, in collaboration with their Mozambican partners, have been involved in inappropriate practices of forestry exploitation. Do we have to omit this fact for a mere question of political expediency? Acts have actors and these actors should be known regardless of their country of origin. This cannot be interpreted as part of a cynical agenda to demonise the Chinese (Savana 2014).

6 Serra 2007a. Serra wrote another open letter to President Guebuza in May 2007 – see Serra 2007b. To obtain an idea of the debate which this question aroused, see Serra 2007c.

However, despite all these criticisms and denunciations, the situation shows no signs of improvement. In 2013, a report of the Environmental Investigation Agency (EIA), the impact of which can only be compared with the report commissioned by FONGZA, accused former Minister of Agriculture Tomás Mandlate, and his successor, José Pacheco (current Minister of Agriculture), of being the main figures in timber trafficking in connivance with Chinese companies (EIA 2013). Some civil society organisations, some opposition parties and some donors, particularly Finland, demanded an investigation into the ministers mentioned in the EIA report, but Mozambique's Central Office for the Fight against Corruption (GCCC) concluded that there was no evidence which implicated them in the contraband of timber. Another report from the same organisation, produced in June 2014, showed that few changes had occurred since the first report (EIA 2014). While the fragility of the Mozambican state is one factor, since there is a lack of resources to control the illegal exploitation of timber, the absence of political will is another: this business involves high-ranking figures in the state and in the Frelimo Party. A further point is that, in addition to involving the country's political elite, the contraband in timber also implicates lower levels in the public administration, the police and the customs service.

When some Chinese business figures were questioned about their involvement in this type of deal, they made a point of saying that one of the conditions for success in their activities is to ally with local state and political figures and this has its implications. This applies to other sectors, not just to timber, and most of the interviewees regarded it as one of the main obstacles to private investment (interviews with several Chinese business people in May 2014).

One of the interviewees, who happens to be one of the most successful in the timber business, even stated that, without the partnership with an important local figure, he would not have the same success that he enjoys today. He said that some people who do not accept this kind of compromise give up and do not invest or, if they have already invested, usually do not manage to enjoy the same success as he does (interview with a Chinese businessman in May 2014).

This is not to say that investing in the timber sector cannot lead to poverty reduction or create jobs. But it does show the current trends and characteristics of Chinese FDI in Mozambique, and it shows that the way in which this investment has been made contradicts the objective of poverty reduction, one of the main intentions of the current government. It should also be stressed that what has been criticised is not investment in forestry in itself, but the way in which this has been done, that is, with the complicity of the Mozambican state and the political elite (both of whom are subordinate to foreign capital) and without respecting the legislation on the matter, by exporting unprocessed wood, by exploiting timber

beyond the limits fixed by laws, and, obviously, without creating added value – except for a small group of privileged individuals.

Conclusion

One of the central points of this study was to analyse the trends and the impact of Chinese FDI in Mozambique. Looking at its territorial and sector distribution, it was found that: (i) between 2000 and 2010, Chinese FDI was concentrated in industry, in terms of the number of projects proposed to the CPI, of the capital to be invested and of the jobs to be created; and (ii) in the south of the country, particularly in Maputo (city and province), the situation is tending to change.

In fact, the latest trends in Chinese investment in Mozambique show that the mineral resources and construction sectors are making the greatest advances. If this happens, Mozambique would be no exception, since most Chinese investment in Africa is concentrated in these sectors. With regard to mineral resources, this would change the concentration of Chinese investment in the south of the country, since most of these resources are in the north, particularly in Tete and Cabo Delgado provinces.

Another point stressed in this paper is that one of the traits of Chinese investment in Mozambique is its alliance with the Mozambican political elites, which has often caused controversy given the fact that some of these undertakings are shrouded in some illicit activities. However, it should be stressed that this characteristic is not specific merely to Chinese investment. Indeed, alliances with foreign capital have been among the formulas used by the Mozambican political elite linked to the Frelimo Party to enter into the world of business.

Confronting this is, without doubt, a great challenge for Mozambique and for Africa, where, often, the elites who should guarantee legality and transparency are involved in obscure deals or partnerships. The same elites put pressure on foreign investors to include them in their businesses. Trying to disguise the problems that weaken cooperation between the two countries with justifications such as ‘China supported us in the liberation struggle (against Portuguese colonialism) and asked for nothing in return’, or ‘those who criticise China are in the service of the West’, or ‘are motivated by xenophobia, racism or hatred’, as claimed, for example, by Sérgio Vieira, a historic figure in Frelimo, or are ‘delirious’, according to President Guebuza (Vieira 2007; Manhiça 2011), is no solution to the problems indicated by various segments of Mozambican society that are interested in ensuring that the results of cooperation and investments between the two countries are of benefit to the country and not just to a small group.

China's support in the struggle against Portuguese colonialism cannot be used as an argument to mortgage the future of the country. Indeed, this argument is similar to the idea of certain Frelimo leaders that, because they led the struggle against colonialism, they should enjoy the natural right to enrich themselves. Problems must be faced frontally and realistically, looking at the advantages and disadvantages which can flow from the relationship between China and Mozambique.

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Part 3

Rural development and
industrialisation

CHALLENGES OF RURAL DEVELOPMENT IN MOZAMBIQUE: CRITICAL CONTRIBUTION WITH DEBATE ON BASIC POSTULATES

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Introduction

Rural development is a central theme in the debates on development policy and strategy in Africa. In Mozambique, over the last three-and-a-half decades, this theme has been at the centre of policy intentions and of disputes over the nature of public policies. From the strategy for socialisation of the countryside to the recovery of the productive structures and dynamics of colonialism, from the focus on large-scale projects generating imaginary development linkages to the multiplication of micro-projects of doubtful rationality and sustainability, from the focus on the economic sustainability of social progress to the focus on improving living conditions based on foreign aid, and from the perception of a dualist economy to an understanding of the development of capitalist relations in the countryside, the rural-development approaches and the concepts on which they are based have varied radically over this period. This text does not summarise these debates and this path. On the contrary, it intends to provoke a debate around six fundamental postulates (axioms or hypotheses) for national development. Of these six, two postulates emerge as the most important. The first argues that *rural development should be the centre of gravity of national development strategy, so that it makes no sense to have a rural-development strategy or a government organisation focused on rural development*. The second argues that *rural development should be*

understood as a process of rural industrialisation, with a widened social and regional base and a diversified productive and commercial base. The remaining four postulates are derived from these two.

The six postulates

- 1. First postulate: Rural development should be the essential content and the centre of gravity of national development strategy. Hence it makes no sense to have a rural development strategy or a government organisation specialised in rural development.**

Under the socio-economic and demographic conditions of Mozambique, rural development should be the fundamental content and the centre of gravity of the national development strategy. Note that it is not being said that rural development should be part, or a fundamental part, of the national development strategy. It is being explicitly stated that the national development strategy should be a rural development strategy. In other words, rural development is not a sector or cross-cutting matter; it is the central matter in the development of Mozambique. Thus a rural development strategy parallel to, or as an integral part of, a national development strategy makes no sense. Likewise, a government organisation focused on rural development makes little sense, in the same way that, today, the government does not have a ministry or a directorate for the fight against absolute poverty, since this fight is not a sector activity but is the focus (hypothetically) of the development strategy.

There are several logical reasons to affirm this first postulate.

Firstly, the majority of the Mozambican population still lives in the rural areas, despite the speed at which urbanisation is happening. Hence, the dynamics of rural development affect: (i) rural and urban demographic dynamics; (ii) the dynamics of urbanisation and the capacity of the urban centres to receive and accommodate the inflow of rural workers; (iii) the nature of employment and of the patterns of economic accumulation (including its relative formality); and (iv) the opportunities for the productive application of the financial flows resulting from migrant or seasonal labour, and the participation by peasants in markets for agricultural goods. (For example, should these financial flows only be invested in more hoes, ploughs, pumps or better housing, or are there opportunities, capacities

and facilities to diversify the use of these flows in industrial investment, from carpentry workshops to metalwork, from building materials to furniture, from production to maintenance of equipment, etc.?) (INE various; O’Laughlin 1981; Wuyts 1980, 1981 and 2003; Castel-Branco 1994 and 1995).

Urbanise the countryside or continue to ‘ruralise’ the cities; continue to wear out the existing cities or create new ones in the countryside; increase the army of informal entrepreneurs and employees who swarm through the cities on the margins of survival, or create new, dynamic and innovative opportunities for decent work; these are options which open or close to a large extent as a function of what happens with rural development.

Secondly, historically and structurally, the basis of support and of capital accumulation for the entire economy of Mozambique, with the exception of the last eight years, has lain in the rural areas. On the one hand, it was from the countryside, and mainly from the poor and medium peasantry, that 75% of national exports came, as well as the low-cost food to maintain the cheap labour force, and the surplus of unskilled, cheap labour for all sectors of economic activity. On the other hand, the main economic accumulation was based on the monopolies and oligopolies which organised and controlled the production, extension, marketing, transport, transformation and export of agricultural surpluses (in crops such as cotton, cashew, tobacco, sugar, tea and sisal, among others). They also organised and managed the credit for the various stakeholders in this economic activity. Furthermore, the peasantry was expropriated of its agricultural surpluses and of the labour force it generated. It was almost always the *source*, and almost never the *destination*, of the accumulation process. Finally, the peasantry was always the *buffer* in crises of capital accumulation, providing, through subsistence production, a temporary *insurance* against the risk of unemployment or of recession in the market for agricultural surpluses, and releasing capital from the social cost of the reproduction of the labour force (O’Laughlin 1981; Wuyts 1980, 1981 and 2003; Bowen 2000; Castel-Branco 1994, 1995 and 1996).

The development of the economy as a whole, in all its fundamental variants, requires the development of positive relations between the different sectors of the economy, as well as the transformation of the negative nature of the accumulation pattern: for both cases, what happens with rural development is crucial, particularly with regard to the social organisation of production and of the producers to break with the pattern of accumulation centred on

large capital at the expense of the development of the productive forces in the countryside.

Thirdly, and connected to the previous point, the dynamics of rural development affect the capacity to mobilise vast national productive forces whose social and economic organisation remain highly ineffective from the point of view of national economic accumulation. With rare exceptions, levels of productivity in the countryside, regardless of sectors of activity, are extremely low. Similarly, the levels of education and the quality and coverage of infrastructures of construction, energy, water, transport, communications and technical assistance, the presence of institutions of science and technology, standardisation and quality control and certification with some specific productive meaning, financing capacity, and the levels of specialisation of production, are also very low (Castel-Branco 2003a, 2005).

Hence the opportunities for expanding and developing the national economy with a broad social and regional base, diversified capacities and macroeconomic support are substantially greater and more dynamic if their centre of gravity is generated around rural development.

Fourthly, one of the phrases most frequently heard in Mozambique is that the majority of the population lives off agriculture. Empirically, this phrase does *not* describe or analyse the complex social reality in the countryside. While it is true that almost the entire rural population has access to land and a connection with agriculture, it is also true that the majority of this population has very diversified survival patterns, which include waged work (even if only seasonal), a variety of agricultural and livestock activities, fishing, some kind of trading activity, some artisanal industry, etc. When specialists from the Ministry of Fisheries work in certain coastal areas of Nampula, the peasants are treated as fishermen; the specialists from the Ministry of Agriculture treat these peasants as if they were farmers; and those from the Ministry of Industry and Trade treat them as if they were traders, or workers, or micro- or small industrial entrepreneurs. Even the specialists of the Ministries of Public Works and Housing, of Education and Culture, of Health and of Environmental Coordination find here the builders of their respective infrastructures (roads, water and sanitation systems, schools, health centres) and managers of their community programmes (O’Laughlin 1981; Wuyts 1980, 1981 and 2003; Castel-Branco 1983a, 1983b, 1994, 1995 and 1996). Is not each of these specialists dealing with only one of the many sides of the survival strategy of differentiated peasants? What is the impact of this on policies

of public intervention and for the success of these measures? To what extent can public policies designed for specialist and homogeneous producers be successful when the producers operate with a broad range of survival options and are highly differentiated?

For example, when the Mozambican government – under pressure from the World Bank – opted to liberalise the export of raw (unprocessed) cashew nuts, it was believed that competition among the traders and access to higher world prices for raw cashews than those offered by the national processing industry would stimulate the peasants to invest in the renovation of the cashew orchards. INCAJU even distributed cashew seedlings free of charge. However, neither the price incentive nor the access to free seedlings resulted in the renewal of the household cashew orchards. There are several explanations for this problem, but it is the combination of three factors which seems to give the most credible answer. These factors are: (i) the effect of exporting raw nuts on the competition between traders and on increasing the price paid to the peasants was minimal; (ii) the peasants preferred to continue investing in a broad range of life options rather than in increasing their commitment to cashew production in a context where they have no influence over markets and prices; and (iii) the informal trade network only functioned for the cashew campaign, thus consolidating the fragmentation of markets, which encouraged the peasants to maintain the diversification of their options instead of opting for specialisation (Pereira Leite 1999, 1995; Castel-Branco 2002, 2003b; Hanlon 2000; Africa-America Institute 2001).

Evidence shows that, in general, there are two types of household that really do live off agriculture: (i) the very poor, who are unable to diversify their range of activities, frequently because of limited opportunities for decent employment; and (ii) the most well-off (middle and rich peasants or even agricultural entrepreneurs), who at some moment in their economically active lives spent some years successfully in waged labour and other forms of survival and accumulation, which allowed them to invest in agriculture (expansion of areas under cultivation, acquisition of better means of production – including animal or mechanical traction and irrigation systems – and recruitment of labour) and to build up a base as independent commercial or semi-commercial producers. The first group is larger than the second, and the two groups together are a minority of the rural population. The first group is unstable (in periods of intense demand for labour, it tends to disappear, whereas in periods of employment crisis, it tends to increase); while the second is vulnerable but tends to consolidate itself and to stand out from the others (O’Laughlin 1981; Wuyts 1980, 1981; Castel-Branco 1994, 1995, 2004a).

The mobilisation and development of the vast rural productive forces requires an understanding and the use of these dynamics of differentiation, diversification, accumulation and survival so as to promote national development with a broad but productive social base, instead of a social base that is merely elite and unproductive.

Fifthly, urban and rural, industrial and agricultural dynamics are deeply interlinked, and this interconnection has fundamental political contours. Foodstuffs, raw materials, fuel (such as firewood and charcoal) and labour flow from the rural areas to the urban areas. From these urban areas, financial resources and, occasionally, some goods and services flow to the rural areas. These flows, and the advantage taken of them, are dictated by the dynamics of accumulation (how people produce and how they appropriate and use the wealth produced) in the rural economy and by the nature of the relationship between urban and rural development, and between industry and agriculture. These relations tend to be unequal and to favour patterns of capital accumulation established around intermediate sectors, absentee owners, speculators, and, only occasionally, around productive sectors.

Many countries, during the more than three centuries of the history of capitalism, followed strategies to expropriate the surplus from the countryside in the initial phases of capital accumulation. Some were successful in transforming the surplus expropriated from the countryside into solid and dynamic industrial capital. To do this, they eliminated the unproductive classes (absentee landlords, speculative middlemen, and the consumerist bourgeoisie), they introduced far-reaching reforms in redistributing the land to those who work it, they helped organise the producers into associations and cooperatives, and they established public services of extension, assistance, financing, marketing, training, standardisation and quality control, etc. Hence the rural revolution empowered politically, socially and economically the emergence of the Industrial Revolution, while the emergence of the latter urbanised the countryside, did away with the differences between agriculture and industry, and eliminated (or reduced drastically and quickly) levels of poverty such as the ones we know. In achieving this, these economies created new, immensely more productive engines of accumulation and transformed their social and economic structures and dynamics (Dasgupta 1980; Dobb 1963; Hettne 1995; Karshenas 1995; Lie 1998; Portes et al. 1991; Smith 1959).

Other countries used the surplus expropriated from the countryside in an unproductive way, that is, for mere personal enrichment, luxury consumption, works of social status, or industrialisation options that were inadequate and non-viable and which did not benefit the countryside from which the surplus was

extracted. By doing this, they were killing their own base of accumulation, making it smaller, and using it in an ever more concentrated way on unproductive elites. To maintain an unproductive bourgeoisie, these economies killed the goose that laid the golden egg. They did not manage to create industry and solid dynamics of industrialisation, nor were they able to maintain the backward but profitable base of production and reproduction of a rural surplus. These economies became deeply dependent on external flows of capital (public or private), vulnerable to the whims of the foreign financiers, and frequently politically unstable because of the growing dispute around the appropriation, redistribution and use of shrinking surpluses (Dasgupta 1980; Dobb 1963; Hettne 1995; Karshenas 1995; Lie 1998; Portes et al. 1991; Smith 1959).

Hence the dynamics of rural development may also be central in transforming the political formations, relations of strength, and balances in society as a whole in favour of productive dynamics of accumulation and development.

Sixthly, a fundamental part of the political forces and the political conflict in Mozambique resides in the countryside. We must recognise that these forces, although in a majority, are very disorganised, dispersed and segmented, despite the fact that they are able to influence important political decisions (as shown, for example, by election results). On the other hand, the negotiating power of international capital (donors, financial organisations, investors, and even money launderers) and domestic capital (traders, industrialists, speculators) is much larger and better organised, and thus much more influential than that of the peasants. The industrial workers and the trade unions are, from the viewpoint of class organisation, very weak and, in most cases, their negotiating power depends on their strategic relationship with rural waged workers and small peasants. The inability to think strategically beyond limited group interests, whether by the peasants or by agricultural and industrial waged workers, strengthens the power of the dominant factions of capital.

For example, during the battle over the liberalisation of the export of unprocessed cashew nuts (Hanlon 2002; Cramer 1999; Castel-Branco 2002, 2003b), the National Cashew Workers Union allied itself with the owners of the processing factories¹ to fight for maintaining the protection of privileged access to the factories for raw nuts at a cheap price.² This position of the union was associated with its concern to safeguard the jobs and the wages of the workers in

1 This privileged access was guaranteed or by the total ban on raw cashew exports (non-processed) or by establishing a system that required the factories to be completely provisioned with raw nuts before export of unprocessed nuts could be done.

2 Below the international price of raw nuts.

the processing factories. However, the union did not understand four fundamental points. Firstly, the status quo of a highly protected industry undergoing a financial and technological crisis would be impossible to maintain. Secondly, both the peasants and the traders and industrialists had differentiated negotiating and survival strategies, while only the workers in the processing plants were entirely dependent on cashew processing. Thirdly, the industrialists were preparing to join the traders (many sold their factories to traders) and trade in the raw nuts instead of struggling to maintain the processing industry. Fourthly, without a strategy for the transformation of the cashew industry as a whole, along the social and economic product and value chain, the situation of the workers would be unsustainable. Thus, instead of associating with the peasants in order to build a strategic alternative for the cashew industry along the social and economic product and value chain, the union opted for the limited vision of immediate group interests, and ended up suffering a great setback: the factories were all closed and about 15 000 jobs were lost (Castel-Branco 2003a, 2003b, 2002).

Strengthening the negotiating power of peasants and other Mozambican workers against capital, and that of national interest groups against international interest groups, as well as the consolidation and development of real (beyond merely formal) democratic bases requires a growing strategic alliance of national progressive forces with the peasantry, as well as the development of social and political organisation in the countryside.

This being the case, a national development strategy which gravitates around rural development is also a strategy to strengthen political, social and economic alliances between the peasantry and other Mozambican working strata, and to strengthen national sovereignty in determining the course of our own development.

These arguments lead to five fundamental implications. Firstly, rural development should be the centre of gravity of the national development strategy. Secondly, all sector strategies should be subordinate to, and articulated with, the central objective of the national development strategy, which gravitates around rural development. Thirdly, it thus makes no sense to have a rural development strategy (since this objective already presides over the national development strategy). Fourthly, it also makes no sense to set up specific governmental organisations for rural development, since this is transformed into a national development approach instead of a sector activity (cross-cutting or not), in the same way that the government does not today have a ministry or a directorate for the fight against absolute poverty (since this is, supposedly, the central thrust of the national

strategy). Fifthly, it is highly questionable whether other sector strategies (e.g. for industry, science and technology, agricultural development, etc.) make any sense, because their objectives have to be subordinate to, and articulated with, the national strategy, the centre of gravity of which is rural development. This does not mean that industry, science and technology, agriculture, transport, etc., are not vital. On the contrary, rural development will be the product of the adequate coordination and articulation of all the sectors. However, the relevance of each will be all the greater when its objectives are derived from, and focused on, the national strategy, the centre of gravity of which is rural development.

So, rural development offers an excellent focus around which the development of policies and other public interventions, medium- and long-term strategic planning, and the strategic structuring of public expenditure can be coordinated and directed.

At this stage, it is worth engaging in parallel reflection on two crucial points. Firstly, what is rural development? Is it an activity located geographically (in the rural areas)? Is it an activity limited to developing some elements, albeit important ones, of rural life, such as improving housing, roads and sanitation facilities? The approach of this presentation is as follows: rural development is defined by the association of the focus and centre of accumulation of the economy with the transformation of the relations of production and of the productive forces of the great mass of national producers, to the benefit of economic accumulation and of their own development as producers. Thus the question is not geographically defined but defined with a social base. Likewise, in this approach, rural development is not a sector activity (undertaken by a directorate) complementing others and thus forced into what the others are not doing (improved houses, sanitation systems, etc.), but it is an economic and social dynamic based on the organisation and development of production and of the social relations of production and productive forces which are inherent to it.

This argument is based on the following facts: the majority of the national productive forces reside in the countryside, and what happens in the rest of the economy and society is related to the organisation and development of the productive forces and of the relations of production emerging from the countryside, that is, with the forms of production, extraction and use of the surplus. In this context, the possibility of generating an expanded and diversified base of development in Mozambique depends on how rural transformation (economic, social, political, demographic) is dealt with.

Secondly, does placing rural development as the centre of gravity of the national strategy imply that the remaining questions (regarding urban poverty, industrialisation, and mineral, energy and tourism mega-projects, etc.) will be abandoned? Not at all. For example, as already mentioned, urban poverty is associated with the dynamics of rural development and with the relation between rural and urban development. As will be seen later, rural development should have a focus (in this paper, it is suggested below that this focus should be rural industrialisation). Mineral, energy and tourism mega-projects may contribute to rural development both through their role in developing the productive forces and through their contribution via fiscal linkages (empowering public investment in rural development), productive linkages (generating synergies which stimulate supply and the diversification of the rural productive base) and employment linkages (absorbing labour in activities outside of agriculture, which is crucial in rural development and in the development of the national proletariat). So the central question is: how does the economy as a whole make the new dynamics of rural industrialisation function and how does it benefit from them?

For example, if rural development (industrialisation) is defined as the centre of gravity of national development, in all sectors this will be the focus: in public works (which will deal with sanitation systems and improved housing and building materials), in industry (whose focus will be rural industrialisation – agro-industry, fishing industry, complementary industries in engineering, etc.) and in all the other activities.

2. Second postulate: Rural development should be guided by a clear vision of rural industrialisation.

Rural development should be conceived of in the framework of rural industrialisation, with an expanded and diversified, viable and competitive productive, commercial, social and regional base, in order to eliminate external dependence and develop the country.

Why? There are several reasons for this. Firstly, rural industrialisation can increase incomes and expand the rural markets, which cannot happen in the absence of industrialisation. Secondly, industrialisation makes it possible to penetrate into more dynamic and innovative markets and confer greater solidity and energy on the rural-development process. Thirdly, rural industrialisation is the opportunity to transform radically the quality and articulation of all rural services, infrastructure and productive units. Fourthly, rural industrialisation is the opportunity for the

expansion and regional and social diversification of the productive and commercial base, of the future development opportunities and of the patterns of income distribution. Fifthly, rural industrialisation is the vector of rural urbanisation. Sixthly, rural industrialisation can be a vector for unity of the national economy by strengthening its internal linkages (Hamilton 1983; Nixon 1986; Dasgupta 1980; Cramer 1999; Castel-Branco 1995, 1996, 2003a, 2003b).

There are, however, many different meanings of 'rural industrialisation': some think of thousands, if not millions, of micro-projects scattered across the country; others think of a small group of large-scale projects with great impact, concentrated on some products (sugar, biofuels, etc.) generating linkages upstream and downstream. It is important to have a national vision of rural industrialisation, but how can it be constructed?

The first substantial question is: what is the productive context and what is the social objective of rural development? Classic and simplistic answers would be: 'to increase labour productivity', 'to increase agricultural income', 'to improve the life of the rural population', 'to eliminate absolute poverty', etc. (Cramer 1999, Castel-Branco 2003a, 2005). But the substantial question remains: to do, or achieve, what?

To build a commercial agro-industry with a broad, expanded and diversified base? To build 'islands' of high productivity around some traditional crops of high commercial value, or which are currently fashionable (sugar, cotton, tobacco, biofuels, etc.)? To improve the income from production essentially oriented towards local food self-sufficiency? A combination of these (and other) options, according to the social, economic and ecological specificities of each region and each moment?

Should agro-industry be oriented towards the development of a national bourgeoisie allied to the great international product and value chains, or towards generating deep national economic linkages and for the broad development of the rural productive forces in the framework of growing socialisation of production processes and the circulation of merchandise?

Any one of these options is possible. But the problems (of logistics, productive organisation, social organisation, etc.) raised by each of them are substantially different. Thus the question 'to achieve what' is neither rhetorical nor a semantic question. It has very large implications.

To be consistent simultaneously with poverty reduction and with expanding the development options and opportunities for Mozambique, a strategy will require a development process that heads towards a commercial agro-industry with a broad, expanded and diversified base. This should be *the focus, the base, the foundation and the priority* of the strategy. To such a base, opportunity elements could be added

(perhaps some ‘islands’ of high productivity in search of a foreign market, such as biofuels, which can offer experience, reputation and a balance between demand and supply of foreign currency and fiscal revenue) and elements that are immediately needed, at least in the transition phase (local food self-sufficiency). Thus the strategy may contain three (or more) interconnected elements (note: *interconnected* is the keyword): (i) a backbone focused on the construction of competitive agro-industry; (ii) specific actions focused on improving the household economy; and (iii) large-scale projects aimed at producing fiscal revenue, foreign currency and productive linkages which make it possible to help and sustain other components of the strategy and generate opportunities to diversify the productive and employment base. But the focus, base, foundation and priority have to be very clear, both on paper and in practice, attitude and analytical methodology.

The possibility of interconnecting different elements within a strategy does not mean that it is easy to interconnect these elements or that they are naturally complementary. They may be in conflict, at least to a certain degree. For example, the multiplication of household micro-industries could hinder development of the division of labour, productive specialisation, access to the workforce, and the generation and release of the surplus necessary for building a medium-scale and competitive agro-industry aimed at dynamic markets. Likewise, the construction of such an agro-industry could ruin household micro-industries. The ‘islands of productivity’ may compete for labour and other resources (land, water, etc.) with the backbone of the strategy, thus making its development difficult. These hypothetical conflicts are not theoretical constructs. Conflict over access to labour, land, water and other resources between different forms of social organisation in the colonial period (plantations, settler farms, and Mozambican peasant farms) and after independence (between state farms, cooperatives, household farms and other forms of labour employment) are well documented in many scientific studies (O’Laughlin 1981; Wuyts 1980, 1981, 1989; Bowen 2000; Castel-Branco 1994, 1995, 2005).

Thus the interconnections have to be built. They cannot be assumed. Nor can the problems be underestimated or ‘forgotten’ as if they did not exist.

3. Third postulate: Rural industrialisation requires rigorous socio-economic criteria of analysis.

A strategy of this nature requires, among other aspects, rigorous socio-economic criteria in order to choose priorities, analyse decisions, and monitor and assess the impact and continual development of the approaches, strategies and policies.

Why is it necessary to choose priorities? Firstly, to coordinate state actions at all levels. Secondly, to establish the public systems to support and encourage the development of production and the circulation of merchandise. Thirdly, to develop the infrastructure and the institutional and human capacities necessary for further, complementary investment. Fourthly, to give clear signs to the other economic agents about what is most important and where the public resources will go. Fifthly, to coordinate competitive investment in line with concrete socio-economic priorities and objectives. Sixthly, to assess the results of public policies, whether they are adequate in respect of their goals, and to bring the goals of public policies into line with the problems of development.

What should an analytical matrix contain in order to make such choices of priorities? There is a series of interrelated questions which should be analysed (none of them, per se, and isolated from the others is sufficient as a decision-making factor, but all are necessary)(The following discussion on the criteria of analysis is based on Castel-Branco 2008).

First comes the question of the *market*: is there one or not? At what price? Is it a dynamic, expanding market with potential for innovation? Or is it a market in crisis, or short term, or with excessive competition, or excessively protected, whose price and demand elasticities are so low that the economy loses by producing these products for these markets? Is it a very variable and volatile market? Or is it one where it is possible to fix acceptable levels of stability in price and quantity (e.g. through negotiating futures markets, long-term agreements with commercial institutions – supermarkets, tourist centres, etc.)?

Is it a very demanding market in terms of quality and conditions of certification which are much above national capacities (in costs and in technological and institutional capacities) or is it an accessible market? What are the logistics required for this market (from storage to transport, from quality and plant health control to certification, from access to factors of production to productive assistance, from information to training, etc.) and can we gain access or not to such conditions? Are there replacement products under development and expansion which can reduce market opportunities and the life cycle of the product we wish to produce, or is our product secure, and does its market offer ample space for innovation and expansion?

The substantive question is that, without thinking about the market and its conditions, it is impossible to think about technology, productive organisation, costs, viability, competitiveness, and the possibilities of the survival and sustainability of the activity to be promoted. While producing little is bad, producing a lot, but without markets and without orientation to specific

markets with specific requirements, is a catastrophe. Consumer markets are not created automatically by the existence of production, nor does the systematic existence of scarcities mean that there are effective markets.

So it is not enough to mobilise the producers to produce more or to introduce new products. This production must have, among other factors, a concrete commercial base (quantity, price, stability, an expansion and innovation dynamic, quality and certification requirements, the logistics necessary so that the market functions, etc.).

Economically successful companies are those which begin by defining the commercial goal of their production and from there reconstruct the chain of production to its origin (the initial capital and its cost, the technology, the type of productive organisation and the raw materials). In this way, it is possible to increase significantly the likelihood of success. This method is not enough to guarantee success (there are other aspects to take into account, as we shall see below), but it is absolutely necessary for success.

Secondly, there are the questions of *viability, sustainability and competitiveness*: what must be done so that we can meet the minimum conditions necessary in order to take advantage of (and even create) market opportunities in a viable, sustainable and competitive form? What is the minimum scale of production? Is the maximum cost of production that we manage to obtain consistent with the competitive conditions? Are the minimum productivity and income consistent with the levels of competitiveness required? What is the quality level required and the capacity to certify it and to improve and maintain it?

What are the requirements of environmental sustainability (also related to the market given that, for example, organic products and 'green' production, from the environmental point of view, enjoy a market premium in prices)? What type of technology is consistent with the scale, productivity, profitability, quality, environmental conditions, and financial, technological, institutional and socio-cultural capacities?

Is institutional capacity (e.g. certification, professional training, information, research and innovation, financing, negotiation on long-term markets/prices, etc.) adequate?

Does the minimum logistics exist, and is it competitive (e.g. good-quality, safe, quick and low-cost transport and storage; communications; supplies of raw materials, auxiliary materials, fuel and electricity, water, equipment and spare parts; maintenance, etc.)?

Few economies (or none at all) meet at the outset all the conditions for viability, sustainability and competitiveness. These conditions have to be created.

The question is where to begin and how to justify the social cost of investment and even of accepting short- and medium-term losses in order to generate productive capacity and competitive and market power in the medium and long term.

At the outset, it seems obvious that the best is to start with what is most simple and most accessible. Indeed, this should be the starting point for research (what is the most simple and accessible?). But ... *take care!!!* What are the 'most simple and accessible' market conditions? Does not 'the most simple and accessible' merely reproduce what we already have? And where will the route of only doing 'the most simple and accessible', which we already have, lead us?

The 'most simple and accessible' has the great advantage of generally consisting of activities and products which we already know, and for which we already have capacities, infrastructure, logistics and some experience. But it has the great disadvantage of not allowing us to make the leaps necessary to restructure the economy. The need to restructure the economy is a requirement for the development of economies such as that of Mozambique. Hence we cannot *limit* ourselves to the 'most simple and accessible'.

Thus it is also necessary to investigate other hypotheses, both linked to innovation in the framework of what is most easy and accessible (e.g. new food products derived from those which are already produced), but also completely different from what has been done. This requires a certain rigour in analysis of the social costs and benefits of investing resources and social capacities in such innovative or totally new activities. To develop the capacities required for innovation, it is necessary to combine the coordination of complementary investment (e.g. roads, transport, storage capacity, and direct productive investment in agriculture and related industries) and competitive investment (e.g. to avoid excessive concentration and competition so as to guarantee that economies of scale are attained and the capacities of companies are used for productive development instead of to capture rents and finance price wars) with the development of scientific, technological, logistical, institutional, information and training capacities and the stimulus for creative work.

Obviously, this can only be done if there is a long-term vision and economic analysis (e.g. the backbone of the development strategy and its interconnection with factors of opportunity and need, long-term markets and prices, knowledge about the evolution of technology and the strategies of potential competitors, replacement products and the potential life cycles of the products, potential linkages and new activities and capacities that can be created, etc.).

One way of starting to explore, learn and penetrate in new areas is to integrate international product and value chains (regional, continental or more global). But this only brings advantages if, before integrating such chains, we know where we want to go: do we want to remain always a subordinate following part of these chains, or do we want to rise up the chain and perhaps, over time, approach its leadership? Once we have defined the final and the immediate objectives, how can we later define better what we want to learn, how we are going to learn it, what capacities we should build, and how we could stop 'following' the others so that we come to 'lead' or to build our own product and value chain?

A further way of exploring new areas is to research what is being done in more advanced neighbouring (or more distant) economies (type and areas of investment, evolution of technology, potential markets, patterns of competitiveness, who invests, and where and why, etc.) to identify clearly what we want to do and then seek out investors (national and foreign, public and private) who meet the conditions and are interested in developing these areas.

Exploring new areas of activity raises four major challenges: a high risk of failure; difficult access to markets; the imperative of learning quickly; and, related to the previous points, difficult access to finance in a commercial system.

How to act to encourage penetration in new areas? Tax incentives are of little value and cannot be the basis of the system – they do not respond to the industrial challenges mentioned above. Their effects only begin to be felt when the countries are producing taxable material (the great problem is to reach this point), they weaken the financial and institutional capacity of the state, and they reduce the positive social impact of these projects. The best option is to attack the problems directly. Some of the fundamental options are, for example: (i) establishing production and commercial insurance; (ii) developing the institutional capacity to promote rapid learning and guarantee technological innovation (in products and processes), quality and certification of production at competitive cost; (iii) introducing subsidies (or even fiscal incentives) related to the adoption of new technology adequate for the problem in question, with the professional training of the workforce and with the penetration of new markets; (iv) negotiating long-term commercial contracts; (v) assisting in developing cooperation between companies (which speeds up learning and the construction of new and complementary capacities and reduces their costs) and the formation of product and value clusters and chains; (vi) facilitating access to and use of information (on markets, technologies, sources of funding, potential partnerships, etc.); (vii) coordinating public investment programmes with the imperatives of developing the private productive base (e.g. linking roads, electricity, water, education and professional training, health, and the system of storage and transport with an agro-industrial

cluster);and (viii) helping find investors with capacity and an excellent reputation in the area and involving them (either as investors or as a source of knowledge and experience).

Thirdly, it is the *socio-economic impact on the economy as a whole* which should be linked with five fundamental indicators: (i) impact on the balance of payments (exports, import substitution, net balances of service, and capital flows); (ii) impact on the public finances and hence on the budgetary balance and on the financial, institutional and human capacities of the state; (iii) impact on levels of savings and national investment; (iv) technological impact and technological and productive synergies; and (v) impact on employment, working conditions and standard of living.

These impacts may not occur all at the same time. Sometimes, it is necessary to sacrifice one of them in the short and medium term to generate the others in the medium and long term. For example, public subsidies or investment may be required to promote new technologies and technological synergies. This means that, in the short and medium term, there may be a negative impact on the budgetary balance, which will not be a problem if it is controlled and if it generates new competitive productive capacities which, in turn, generate new fiscal dynamics in the medium and long term. The central question is, in each case, to identify the best and most realistic combination of factors for the economy, but not underestimating macroeconomic sustainability (above all, in terms of the balance of payments and the fiscal balance) of development options (Sender & Smith 1986a, 1986b; Harris 1997).

It must be borne in mind that these impacts are interconnected. For example, if the impact of the project is negative in terms of fiscal revenue, and more or less neutral with regard to productive synergies, perhaps it will not be positive for the balance of payments. The impact on the trade balance may appear good, but it will only be so effectively if the economy really retains the gains related with this apparently good impact on the trade balance. For the economy effectively to retain a sufficiently large part of the gains that are reflected in the accounts for the trade balance, the project must develop deep linkages with the economy – for example fiscal linkages and productive and technological synergies (Castel-Branco 2002, 2003b, 2004b; Castel-Branco & Goldin 2003).

It is not enough for a positive impact to be apparent to justify social investment. For instance, it is not enough to think that, since biofuels or tobacco contribute to the trade balance; they must merit access to tax incentives. These ‘incentives’, the impact of which on the projects tends to be very small (and ever smaller the larger the project is), in fact reduce the project’s contribution to the economy (indeed, they ensure that the apparent accounting effect of the project on the trade balance

is not expressed in reality), since they reduce the effective retention of the gains of the project by the national economy.

Hence, the cost of the incentives and the effective gains for the economy must be balanced so as to generate a social cost/benefit analysis which justifies public investment (including incentives which are forms of public investment) in the short, medium and long term. Essentially, each action taken has to contribute concretely to strengthening the economy.

Such a matrix makes it possible to assess the various competing options and helps take decisions on policy, strategy and public investment with greater rigour and sovereignty.

But this is not a defensive matrix, that is, a matrix which only serves for the government to respond defensively to investment proposals. It is an attacking matrix, that is, it helps the government make strategic choices and build options and opportunities and fetch the capacities needed to put them into practice.

4. Fourth postulate: Linkages between sectors are the essence of rural industrialisation.

One of the essential aspects of rural development is the construction of linkages between sectors and of complex and multifaceted productive capacities. This has technological implications, but also, and above all, institutional and socio-economic implications, and implications for the relations between economic and social groups and agents.

Increasing agricultural productivity and incomes requires new productive capacities. These capacities are not merely to do with seeds, fertiliser and equipment. They are much more complex, albeit related, capacities, namely:

- **Social and technical organisation of production** which allows the absorption of technology, adaptation and innovation, access to finance, the minimum scale of production which justifies the technological costs, and minimises transaction and learning costs, etc. How to build an organisation of scale that is consistent with productive effectiveness and with improving the working and living conditions of the people? What kinds of enterprise are viable, apply to different social, cultural, technological and economic conditions, and are consistent with economic and social effectiveness? Cooperatives or associations? Capitalist companies? Companies with

a high level of vertical integration and control of resources, such as the concessions and the sugar companies? Small and medium companies specialising in specific parts of the production chain, i.e. without vertical integration, but united by means of industrial associations? What working conditions and organisational and management conditions are consistent with the social and economic objectives of production? How to deal with the concessions and with companies that function in line with oligopolistic models (high level of vertical integration, coordinated markets, etc.)? How to deal with the articulation of production and value chains when there is no vertical integration (i.e. how to articulate the chains by other means external to the enterprises, such as, for example, clusters, industrial associations, etc.)? What are the political, economic and social challenges for the transformation of the existing productive base, for placing the productive forces into new contexts of production and trade, and for the transfer of productive forces from agriculture to industry and services?

- **Organisation of logistics:** All commercial production requires an effective organisation of logistics, namely: supplies, transport, storage, marketing, maintenance, etc. Machines require operators, spare parts, fuel, technical assistance, and rules for use and maintenance. Inputs require production systems, provisioning, distribution, assistance in use, rules for use, and control. Production has to be moved: sold, stored, transported, transhipped, etc., to the final consumer, with safety, quality and speed. Producers and consumers need financial logistics. Market information and the logistics of inputs, finances and the final products have to be systematically accessible at low cost. The productive effectiveness of an enterprise depends not only on its internal effectiveness (how it transforms means of production into products), but also on the effectiveness of the logistics (how it has access to the means of production, how it maintains its productive capacity, and how it has access to markets). Great advances in production make no sense, and indeed cannot be achieved, without great advances in logistics (infrastructure, services, information, distribution systems, etc.).
- **Science and technology:** Namely with regard to research into productive processes (technological and social), new products and new methods; the development of capacity and systems of information to choose, adopt, master, adapt and innovate products, systems and production methods; systematic and very wide-ranging publicity for the best methods and experiences; the generalisation of local extension, research

and consultancy systems, accessible to the producers, of high quality and adaptability and adequate for the concrete social, cultural, ecological and economic contexts, and at low cost; broad professional training (not only about production technologies, but also about markets, prices, investment decisions, production decisions, management, organisation of production, organisation and motivation of the workers, the environment, research, etc.); certification and licensing; speed in introducing new genetic varieties when beneficial, etc. Science and technology must link the laboratories with the enterprises, markets and concrete productive conditions. From the point of view of agricultural development, it is not enough to have good seeds or to know a lot about the genesis of a particular plant if this does not fit into a specific commercial and business framework.

- **Finances:** All producers complain of the banking system and how access to and cost of credit are strong obstacles to development, but the problem persists and has not been seriously tackled.

The question posed is simple: do we want to produce on a commercial basis in a competitive and viable form or not? If we do, one of the problems to solve is finance. Otherwise, the rest will be hypothetical.

On the other hand, finance is generally seen on just one side, namely that of access to private bank credit. But it is worth looking at the complexity of development finance.

Firstly, almost as important as credit is access to insurance. If insurance reduces risk, then it can increase the availability of cheaper credit and the motivation of producers to invest and innovate.

Secondly, finance can be public and private, resulting from loans or from own savings. Public investment in infrastructure, in logistics, in information systems, and in the scientific and technological base, coordinated around specific and territorially located concrete productive goals, is a privileged form of support for reducing risk and uncertainty, for increasing productive effectiveness and for reducing the costs of private investment; that is, state investment in complementary and basic activities can be as crucial as access to direct and cheap credit.

Furthermore, the state can also coordinate competitive investment to avoid an excess of competition, the underuse of productive capacity and the waste of resources, and in order to promote economies of scale and reduce transaction and learning costs. As well as promoting productive

effectiveness, this type of activity reduces costs and losses for private investors. The state can develop subsidy systems and other forms of direct financial support for the producers, but related entirely to clearly identifiable and measurable economic objectives –for example, subsidies for adopting new technologies, the introduction of new varieties, training, penetration into new markets, etc. This system works better when: (i) it is part of a clear strategy with specific objectives (e.g. to produce product X, under the conditions required for market Z, in minimum quantities N, at price P, in order to generate income Y for the national economy); and (ii) it is linked with the performance of the beneficiary (if the beneficiary of the system does not reach the defined performance levels, the support should be withdrawn and this agent should recompense the state in a reasonable amount), that is, the state may support, but by introducing a system of economic discipline.

The state may also become an important financial partner of agencies that finance investment and commercial operations, thus helping private banking activity to be oriented towards the agro-industrial productive sphere.

State intervention via insurance systems, coordination of complementary investment, coordination of competitive investment, etc., reduces risks and uncertainty and increases the probabilities of success, which makes agro-industrial activity attractive for private bank financing at lower cost.

So that the state can be involved in these activities, it needs funds. These can come from various sources: fiscal and non-fiscal revenue, and foreign aid.

To increase fiscal revenue very significantly in the short and medium term, it is not enough to improve the tax administration. It is necessary to expand the productive base and collect revenue from the major sources that can potentially generate revenue, namely the large-scale investment projects which are benefitting from colossal fiscal facilities. The potential revenue from the mega-projects and other large projects may not only increase the financial capacity of the state by 50% or 60%, but can also help reduce the fiscal costs of other enterprises through reduction of the tax burden. Hence it is necessary to renegotiate the agreements with the mega-projects and other large projects with regard to the fiscal incentives and to be much more cautious in attributing new incentives.

Furthermore, public expenditure focused on assisting the organisation, development and expansion of a broadened and diversified productive

base contributes to increasing the amount that can be collected through taxes. Thus the dynamic and structure of public expenditure can help develop the financing capacities of this same expenditure through endogenous mobilisation of resources for development finance (Doriye & Wuyts 1993; Harris 1997; Castel-Branco 2004b).

The state receives about US\$ 1.5 billion a year in foreign aid. If a substantial part of this aid were channelled into direct support for the development of productive capacity in the framework of an agro-industrialisation strategy (in areas such as complementary investment, logistics, creation of training and information systems, development of the scientific and technological base, financial partnerships with the commercial banks, etc.), in some years Mozambique will be able to build specific productive skills and will reduce its structural dependence on foreign aid.

In Southern Africa, there are agro-industrial financing institutions which can be better exploited. The European Union, Brazil, India and China also have institutions of this type which can be exploited in the framework of commercial and foreign investment negotiations. These are not easy paths, but they are possible. But first of all, it is necessary to have information about these mechanisms and to define the best ways for using them. Could the Bank of Mozambique undertake careful research into these possibilities?

Thus state intervention can effectively provoke the crowding-in of private investment (i.e. increase the opportunities, availabilities and motivation for private investment at lower cost and with a more structural and long-term vision).

It is also necessary to do something with private and commercial banking activity. On the one hand, there should be a strategic vision of the development of the private financial system in Mozambique. New banks are appearing, but at what cost, on what scale, for what markets, and where are they located? When the banks are authorised, what socio-economic counterparts for social benefit are established?

On the other hand, microfinance initiatives are multiplying, but at what cost, for whom, and what problems do they make it possible to solve? With rare exceptions, microfinance works better for retail trade and/or in the framework of large projects with high levels of vertical or horizontal integration or with high coordination of investment. To what

extent can this system serve the development of the productive base and rural development? (Castel-Branco 2003a, 2004a, 2004c, 2005).

How to make the commercial banks effective partners both of the state and of private productive investors in the implementation of more structural and long-term strategies for productive development? The strategic framework of development directions and priorities and the coordination of the various public and private interventions, of the resources, and of the infrastructures and other capacities is vital so that the private commercial bank becomes a development bank.

Finally, financing does not come only from third parties – the state, donors and private commercial banks. How to attract direct private investment (foreign and national) to the priority and so as to attain fundamental and inalienable socio-economic objectives?

The problem of financing is complex, but this complexity is also an opportunity to work to unblock solutions.

- **Linkages between sectors:** The rapid development of the agro-industrial productive base requires and also empowers the development of linkages between sectors for various reasons.

Firstly, agro-industrial production needs expanding, dynamic and innovative markets. Industry, tourism, supermarkets, towns and cities, and export markets provide this commercial base. Furthermore, the higher industrial productivity and income and the synergies of productivity generated in industry contribute to expanding the markets and making them more demanding and dynamic.

Secondly, the building of productive bases for the rapid development of agricultural production (the enterprises, the organisation of the logistics network, the science and technology base, etc.) requires industrial, commercial, transport and storage capacities, etc., without which agricultural production cannot expand in a sustainable and significant form.

Thirdly, the increase in agricultural productivity and incomes will create the historic opportunity of transferring resources to outside agriculture (labour, productive surplus, financial resources). If agriculture is not developed in connection with the other sectors, these resources will remain unproductive and unemployment will increase.

Fourthly, the gradual modernisation of agriculture will eliminate the differences between sectors: services, industry, science and technology will have to be combined in the same enterprise or productive organisation.

5. Fifth postulate: Placing the centre of gravity of the development strategy in rural industrialisation requires institutional changes.

It is obvious that each approach and each action has its most appropriate institutional framework. In this debate, it would be important to consider two points: the construction of a single strategy and institutional rationalisation around this single strategy.

Firstly, how many strategies should the government have? Common sense says 'just one'. The rest are forms of coordination between sectors and interregional and intraregional coordination to achieve the objectives of this strategy. Today there are ministries which have four to five strategies or more. In all, the government must have 40 or 50 national strategies, not to mention the dozens of provincial or district strategies, and the many sector, subsector and subnational strategies of the donors. The country must be operating with around 250 strategies. Is this necessary? Is it viable? How much does the management of all these strategies cost in time, and in human, financial, institutional and information capacities? Is not this proliferation of strategies fragmenting and weakening the state and governance?

Much of this problem of multiple strategies is created by the crisis of identity of the state which has developed over the past two-and-a-half decades of liberalisation, which was sometimes gradual, sometimes accelerated and by jumps, and frequently without very clear objectives. The organisation and conception of the state took four enormous leaps in the last three-and-a-half decades: from the corporate colonial state (the organiser and recruiter of cheap labour, collector of taxes, and protector of the productive organisation of the colonial economy) to the enterprise state, the planner and allocator of resources in the period of the construction of the state socialist economy. From this centralised state to a liberal state, with the mission of making life easier for capital but without knowing very well how, especially when national capital is so weak, if not merely emergent. From this liberal, but still centralised state, to a decentralised state, but without any clear economic and social logic. The crisis of identity arises naturally in such a brusque process of radical changes, exacerbated by the appearance of countless ideologies

of state-building (the state of the social contract, the nation-state, etc., etc.) and by the dependence of the state on outside financing of its activity (Castel-Branco 2002).

The practical question raised is: what is the role of government departments in this state? The unqualified concept of 'facilitating state' has given way to inertia and to multiple strategies. Access to funds from foreign aid also requires strategies. So every department of each ministry, provincial government and district administration produces strategies. There are public administrations which have a strategy for each functionary, and others which use strategies exclusively for the purposes of mobilising foreign aid. (So, these strategies are drawn up in line with what the officials of the respective administration think the donors like to hear.) For every problem, a universal solution has emerged: a new strategy. Every time a new (or old) problem is identified, the diagnosis of the cause is immediate: lack of a clear strategy (Castel-Branco 2003a, 2004a, 2005).

Another part of this problem is created by the donors, each of whom wants its own areas of influence and uses 'strategies' as a way of articulating its interests and of making them felt clearly in the public administration and in the allocation of resources. Ironically, the 'lack of clear strategies' on the part of the government is an argument frequently used to justify the need for the donor, too, to have its own strategies.

As is obvious, this multiplication of strategies weakens and fragments the state and governance, disperses resources and capacities, and contributes to hindering the implementation of any viable action. This is why a single medium- and long-term strategic framework (economic policy, planning, and fiscal and public expenditure framework) should be created, aimed at developing the country's creative capacity. The rest should be clearly expressed as tributaries and contributions to this single framework. A national strategy whose centre gravitates around rural industrialisation can supply the focus for the articulation and development of a single strategy.

Mozambique has already had such foci. The plan to restructure the economy, between 1977 and 1980, was focused on reorganising the chains of production and the supply circuits and on the rationalisation and social reorganisation of the productive capacities and forces. The Indicative Prospective Plan (PPI) was focused on the goal of socialising the countryside, subordinating to this industry, education, the expansion of the social network, investment, the organisation of productive logistics, etc. The Economic Recovery Programme (PRE) had as its operational focus the need to halt the continual decline of the economy, the rehabilitation of production, and the circulation of merchandise

in the rural areas; to this operational goal all sectors were subordinate – light and consumer goods industries, heavy industries and capital goods, the industries that generated foreign currency and tax revenue, and those which stabilised employment levels, public works, transport, energy, water, etc. (Castel-Branco 1994, 1995).

Thus it is possible to organise a single plan, programme or strategy which forms the centre of gravity and coordinates the action of all around this centre. But the centre of gravity has to have a concrete meaning – rationalisation of the productive base, socialisation of the countryside, recovery of production and circulation of merchandise in the countryside, rural industrialisation. If the centre of gravity is excessively vague (e.g. the fight against absolute poverty), it will be difficult to provide a basis for coordination, selection and direction because practically any option or action is possible. If the centre is too limited (e.g. the development of biofuels), it will exclude most of the productive forces and potential initiatives.

In this context, all national policies (monetary, fiscal, education, health, roads, railways and transport, communications, energy, water etc., etc., etc.) have to respond to the needs and demands of this strategy. It makes no sense to say that rural development is the national priority when there are then no enterprises, no logistics organisation and network, no scientific and technological base, no finance, no links between sectors, no clear identification of markets and technologies, no criteria for taking decisions, no monetary policy conducive to productive investment, no training and information systems, etc., etc.

Is it viable to have a single national strategy of the ‘rural industrialisation’ or ‘development of productive capacity’ kind, or anything similar, but which is oriented precisely towards this development of capacity and national productive skills in an articulated manner? For example, Brazil has just adopted a new, single industrial strategy called a ‘productive development plan’ which guides the entire economy. How to articulate this strategy, and where?

Secondly, in relation to the development of a single strategy, it is important to rationalise the government structure. On the one hand, if rural development is at the centre of gravity of the national development strategy, the existence of government organisations for rural development makes no sense. The basic reason for this is that all government organisations will be forced and trained to promote rural development, if this is the centre of gravity of governance.

On the other hand, the subordination of the various sector organisations and levels of governance to rural development raises interesting challenges. Firstly, it

must be understood what 'focusing on rural development' means, as mentioned earlier. This does not mean 'only pay attention to the rural areas and to the problems that arise there'. The central question is to focus attention on the social and economic dynamics which empower national development with the centre of gravity in rural development. Put in simple words, it is a matter of bringing the dynamics and problems of industrialisation and urbanisation (and of the multiple associated services and linkages) to the agenda of the great mass of the productive forces of the country; it is a matter of involving this mass of productive forces, positively, in the development of the dynamics and in the solution of the problems of industrialisation and urbanisation for their own benefit; it is a matter of assessing the results of implementing public interventions and the development trends in line with how they fit into the objectives of the broad industrialisation and broad urbanisation of the country.

Secondly, coordination between sectors and between regions has to be substantially improved. In the public sector, this requires strengthening the capacities and mechanisms for policy analysis and development, for statistical production and analysis, and for strategic planning and budgeting from the viewpoint of the development policy, both at central level and at sector and local levels. Obviously, this task would be simplified if the size of the government (the number of ministries and provincial directorates) were cut dramatically by half. In the same context, the assessment and accountability system should have an intersector and interregional character. It is not very useful to know the list of achievements of a ministry or of a national or provincial directorate if these achievements are not assessed, not only against the original plan, but, above all, also against the objective of rural industrialisation based on the criteria mentioned previously. Furthermore, more important than the list of achievements are the real dynamics of rural industrialisation and urbanisation which are being created, the difficulties that arise and the challenges that lie ahead.

As for its relations with private economic agents (cooperatives, associations, individuals, capitalist companies or any others), the public sector has to learn five basic rules. This 'sector' is very heterogeneous and differentiated and, as a result, it cannot speak with just one voice. Some are going to discuss taxes and customs fees, others are going to ask for subsidies for credit, still others are going to demand tax incentives or subsidies linked to specific productive activities – adoption of new technologies, training of the workforce, penetration into new markets, etc. Some are going to be focused on systems of training, information, quality control, certification, incentives for productivity, reduction of production accidents, logistical systems, systems of technological innovation and information, and other questions directly linked to production and circulation; while others will

be focused on the capture of unproductive rents. Some will want labour legislation to be increasingly flexible and liberal for the employers, while others will be more interested in developing the quality and organisation of the workforce and its productive motivation. Some will be small, others large. As a result, the public sector has to identify, within this heterogeneity, the dynamics, trends and alliances that are most interesting for the pursuit of the rural industrialisation strategy and bank on their development. Apart from strengthening the social interests around its policy priorities, this type of action also makes it possible to signpost, for all economic agents, the direction of the incentives and public interventions with great clarity.

A central part of the differentiation of the private sector is its corporate structure, which is reflected in the industrial structure and dynamic. All the productive activities function with a chain of suppliers and consumers, which is the simplest base of the product and value chain. This chain may be organised in various ways: (i) by vertical integration and homogenisation of production and circulation (as is the case of the sugar industry in Mozambique); (ii) by subcontracting without concessionary power (as is the case of Mozal); (iii) by subcontracting with concessionary power (as in the cases of cotton or tobacco, where the oligopolistic company controls a concession which includes land and peasants who have to produce for it); (iv) by the formation of oligopolies, such as the industrial associations; (v) by way of long-term contracts; or (vi) by the market. This last way, the market, is, as a rule, the least effective and the most uncertain, which is why companies prefer to develop many of their upstream and downstream linkages outside of the market (by means of the other five alternatives). Each of these forms of industrial organisation has an impact on the power which the companies have, on the relation between capital and labour, on the relation between enterprises and the state, and on the nature of the political conflict, challenges and opportunities (Castel-Branco 2002, 2003a, 2003b, 2005). None of these systems is applicable, as a solution, to all problems in any circumstances. Some work better in some circumstances, others work better under different circumstances. What is fundamental is that public services should learn to deal, in a differentiated way, with these industrial systems and to regulate the way they operate (including, if necessary, choosing those that are most adequate for rural industrialisation, with a broad social and regional base and with a diversified productive and commercial base).

The relationship between the public and private sectors is at its most intense and positive when a relationship of 'exchange' is developed between the two. In this relationship, the public sector provides services to support production in the framework of its rural industrialisation strategy and, in response, the private

sector attains the social and economic levels of productive performance required for continuing the positive and intense relation with the public sector. The public sector does not command the private sector, nor should the latter manipulate the former.

The private sector is not particularly focused on 'national strategy', 'rural industrialisation', 'poverty reduction', and other matters of this sort. Its concern is with its business and how this business is affected by the chains of suppliers and consumers, and by public interventions, policies and legislation. It is the state which can (or not) guarantee that the direction and trends of development are guided by social and economic objectives. Hence, in its relationship with the private sector, the state has to promote business opportunities and facilities, but must also guarantee, through legislation, systems of incentives, coordination of complementary and competitive investment and public investment expenditure, and ensure that the businesses evolve in the direction of rural industrialisation with a broad social and regional base and a diversified productive and commercial base.

Finally, public strategies are primarily intended to define the priorities, coordinate the interventions and establish the incentive systems of the public sector, that is, they should culminate in the definition of what the public sector is going to do so that rural industrialisation, with certain social, regional and economic characteristics, happens. The public strategies are not, nor can they be, primarily to mobilise by words private economic agents. The signalling of priorities and mobilisation of private economic agents is done through specific public interventions: coordination of competitive and complementary investment, public expenditure which provokes crowding-in of private investment, incentive systems which channel private investment in certain directions, organisation of logistics, etc. The state has to put into action a strategy, the implementation of which requires a coordinated, unitary and enterprising state capable of encouraging most of the country's productive forces to opt for the rural industrialisation strategy for their own benefit.

Rural development demands a competent, dedicated and articulated state capable of promoting and assisting the development of the commercial productive capacities and of the economy as a whole, But where will this state and its policy objectives come from? How can the progressive national social and political forces interested in developing an expanded, diversified and competitive productive base coordinate in order to generate such a state ?

6. Sixth postulate: Development requires restructuring foreign economic relations

Rural development, like any strategy relevant for development, has major implications for the structuring of international cooperation. In the case of Mozambique, there are at least five important areas to explore:

- Firstly, the orientation of foreign aid for the development of articulated productive capacities (infrastructure, logistics, scientific, technological, information and training systems, insurance, subsidies and financial partnerships);
- Secondly, identification of policies and strategies of states and of potential commercial competitors, which can have an impact on the opportunities, options and challenges to be faced by Mozambique and its companies, so that they can be taken into account in the construction and development of the national development strategy and the negotiation and cooperation strategies;
- Thirdly, identification, negotiation and exploration of development facilities: financing and scientific–technological systems (research, training, information, etc.), product and value chains, investment partnerships and partners, legislation and regulation, etc.;
- Fourthly, identification, negotiation and promotion of access to dynamic markets with innovative potential, as well as identifying their demands for quality and certification and the existing facilities for subsidising the building of capacities to reach these demands; and
- Fifthly, identification of the dynamics and trends of foreign investment and of opportunities to explore for specific objectives of the concrete productive strategy, and implementation of differentiated strategies and incentives for the different types of investment (mega-investment in ‘islands of productivity’ or small and medium investment in the backbone of the strategy) and different types of objective (technological synergies, commercial partnerships, financing, etc.).

Hence, the international approach has to be attacking and strategically defined. It cannot be limited to signing trade-liberalisation agreements as if these were an inevitable *fait accompli* (which they are not), nor to mobilising foreign aid in the framework of social goals, without an economic base, defined by international organisations.

In this context, the international strategy is influenced by the rural development strategy in three ways: (i) it has to refine and provide the detailed information necessary (on markets, investors, technologies, financing facilities, scientific and

technological facilities, replacement products, the strategies of competitors, etc.); (ii) it has to operate in the framework of specific productive priorities and of what is needed to implement them; and (iii) it has to help mobilise resources and capacities and penetrate dynamic and innovative markets.

Conclusion

Obviously, the national economy faces two major problems in putting any of these ideas into practice – it possesses neither perfect markets nor perfect institutions. Both function defectively and are influenced or controlled by powerful economic and political lobbies. How can this problem be overcome so that the imperfect and inefficient institutions and markets can help the economy work better? How will the lobbies of international finance capital, of the industrialists and traders, and of the large agricultural businesses allow the transformation of the pattern and centre of capital accumulation in the national economy (such a process will never happen spontaneously)?

Among many others, there are three aspects that can be focused on right now. Firstly, Mozambicans have to agree about what can and should be done now and in the foreseeable future with the economy and with the country. The problem yet to be solved is: what type of Mozambicans and what type of interests will dominate this process? Secondly, the resulting pressures can influence the institutions and thus influence their reaction and response to the problems raised.

Finally, this debate can help create a new lobby or, still better, a new social force able to articulate politically the interests and aspirations of those who are banking on profound structural transformation of the economy, undertaken at the pace the country can sustain (in the same way that sustainable growth will have the rhythm, not of the planners, but of the rural development process). Who knows, perhaps in the near future this lobby may have sufficient influence to help determine development options in Mozambique.

Many of the transformations will have to be made over time, and as the human, social, political, institutional, technological and economic capacities are created to implement them. During the continual process of transformation and development, new problems, ideas, experiences and solutions will naturally appear. We do not have to wait for a perfect general environment before beginning a development process. But we must begin, with a great deal of clarity, to broach the main problems and constraints, the alternative paths and the objectives to be attained.

Before anything else, development means transforming the existing social and economic base and overcoming, through a complex process of social, economic and technological conflict and restructuring, the constraints that it creates. *Rural development* is not a final stage, a sum total of objectives and intentions, or a simple accumulation of resources and capacities. It is a process of long-term change, full of the most varied conflicts and options, many of which are mutually exclusive and require selective decisions and a great learning effort. It is a process of transformation and creation of capacities and living and working conditions which covers all the essential aspects of rural life: production, consumption, savings and their mobilisation, the rate, allocation and efficiency of investment, the appropriation, marketing and use of surpluses, the quality of the economic and social agents and the power relations between them, the quality of life, technological development, etc. It is also a process that affects and modifies the relations between economic agents in the countryside and the city, in agriculture and in industry, and between peasants, agricultural proprietors, industrialists, traders, transporters and waged workers. Hence *rural development* is not limited to production, or marketing, or transport, or extension, nor can it be seen merely from the point of view of solving some specific, albeit important, problems.

Rural development can be conceived of as a prolonged people's war in which everyone takes part, and so everyone learns and everyone teaches. But this perspective on rural development presupposes clear political and social options about the actors and beneficiaries of this development.

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REGADIO DO BAIXO LIMPOPO (XAI-XAI, GAZA): AWAKENING A 'SLEEPING GIANT'?

Ana Sofia Ganho

Introduction

The government of Mozambique and international development institutions alike have pushed for greater private investment in agriculture. Yet, the particular characteristics of such investment and its role in the national economy and overarching strategy have received far less detailed attention in their arguments and policies. In turn, the Institute for Social and Economic Studies (IESE) has spearheaded research on the dynamics of the Mozambican economy: it highlights the place of the extractive industries, which are fuelled by large private foreign inflows as the dominant mode of accumulation, and investigates the conditions for developing productive capacities in a diversified and articulated manner (Castel-Branco 2008; Castel-Branco 2010; Castel-Branco 2012; Castel-Branco & Mandlate 2012; Muianga 2012). Firstly, conditions should include the generation of production and commercial capabilities that develop parallel linkages, that is, not dependent on the value chains of extractive activities. Secondly, linkages need to be framed by a development strategy with clear goals and means to achieve them, which, in the case of Mozambique, should be based on agricultural production and rural industrialisation at low cost to start producing a surplus that the Mozambican economy can absorb, rather than producing for export.

Increased prices of agricultural commodities, coupled with the perceived abundance of cheap land, water and labour in Africa in particular, have made

countries like Mozambique a natural target of growing interest in farmland investment. The concerted efforts on the part of the government of Mozambique (GoM) to attract foreign direct investment (FDI) through legal instruments (e.g. investment law) and dedicated agencies (Centre for the Promotion of Investment [CPI] and Centre for the Promotion of Agriculture [CEPAGRI]) appear to have added to this country's appeal to investors. Nonetheless, accurate and quantifiable data about the number of private investment projects in agriculture currently in operation, or how they interface with the national or local economy, are not available. This is due to how data is fragmented among local and/or central institutions: the existing database at the main gathering agency, the CPI, only includes information about the projects approved initially and does not provide qualitative update reports, which are shared only with the Council of Ministers. Furthermore, the database excludes any project, international or domestic, which has not sought CPI's assistance or from sectors ineligible for tax incentives, such as energy and mineral resources. Therefore, despite government rhetoric about increasing FDI values, the real scenario remains unknown to researchers, as do their economic and social impacts.

At the intersection of these global and national dynamics, it is important to address three interrelated questions. Firstly, what investments are actually being made, and what are their characteristics? Secondly, what impacts are they having, and what challenges are they facing? Thirdly, and closely related to the previous questions, do they have the potential to develop productive capacities in a diversified and articulated manner? It is beyond the scope of this paper to offer a systematic reflection of all investments currently taking place. Rather, a more focused analysis is provided based on a case study from Gaza province, namely on a large state-run irrigation scheme in Xai-Xai, the Regadio do Baixo Limpopo (RBL), that has recently expanded to accommodate large-scale private investment, mostly in food crops, and rice in particular. In the national press, the irrigation scheme upstream in Chókwè, with an area of just under 30 000ha, but RBL as well, have been referred to as 'sleeping giants' (Notícias 2007, 2012) that might finally see a new era when their full potential will be realised. Whether foreign investment can and should 'awake' such large-scale schemes is significant with regard to the questions raised here.

This paper seeks to examine the projects according to the approach developed by the IESE, with a focus on selected key points, the first being that the projects need to generate new productive capacities (technological, managerial, and logical organisation of production) and sectoral linkages that are parallel and not dependent on the value chains of extractive activities. Thus, institutional settings for the use of natural resources and the processes of organisation of production,

from cultivation to finance and marketing, are examined. Secondly, developing linkages alone is not a sufficient factor for the broadening and diversification of the productive base of an economy. Such linkages will not produce particular outcomes unless they are framed by a development strategy with clear goals and means to achieve them. For instance, for a diversified and articulated, broad-based economy, strategies need to lead to the production of a surplus that the national economy can absorb and be geared towards the internal market and away from the primary-product export model. This initially entails feeding people and the production process while lowering investment and production costs and stepping up processing activities and distribution circuits that can be of use to different sectors. In this regard, it is important to examine, for instance, the role of international agreements and technology transfers. And a final yet fundamental point: the accumulation patterns would have to move beyond the groups that have historically dominated the economy's value chains in order for accumulation to become truly broad-based. Therefore, interaction between local/national elites and local labour in the case of foreign projects also needs to be taken into account. In sum, it is not only about what an economy produces, but also for what purposes, by whom and by what means that counts.

The paper is organised into six sections. After the present introduction, the second section provides a summary of the geographical context of Xai-Xai and RBL, the key historical challenges, and the projects operating there. The third section elaborates on the institutional management set-up as it relates to the organisation of the systems and means of production. The paper goes on, in the fourth section, to highlight issues pertaining to whether new production and commercial capacities are enabled by these agricultural projects, namely labour and social organisation of production, technical inputs (seed production and technology, machinery), finance, processing, and marketing. The fifth section frames selected issues in strategic and regulatory terms, focusing on rice as an import substitution crop. The final section draws conclusions with respect to the questions identified at the start of the paper.

Xai-Xai: Brief historical and current context

The Regadio do Baixo Limpopo (RBL) is located in Gaza province, near the city of Xai-Xai, approximately 200km north of Maputo and close to the mouth of the Limpopo River. It has been plagued by underinvestment and natural disasters since the mid-1980s, and, although its rehabilitation was planned since the end of the war, due to several delays, works only occurred over a decade later. Between

2004 and 2008, the RBL finally underwent partial rehabilitation and institutional development as a result of the Massingir Dam and Smallholder Agriculture Rehabilitation Project (MDSAR).¹ In 2011, it came under the managing authority of a state enterprise created for that purpose, Regadio do Baixo Limpopo, EP (RBL-EP), and has been promoted as a model scheme through governmental praise based on foreign investment and technological transfers to Mozambican producers in one of the projects. Yet RBL faces multiple challenges, chiefly its costly maintenance due to the nature and extension of infrastructure (water, road, power) and its location on a low-lying plain prone to flooding and droughts. This combination of factors has contributed to make agriculture historically a difficult and expensive activity in the area.

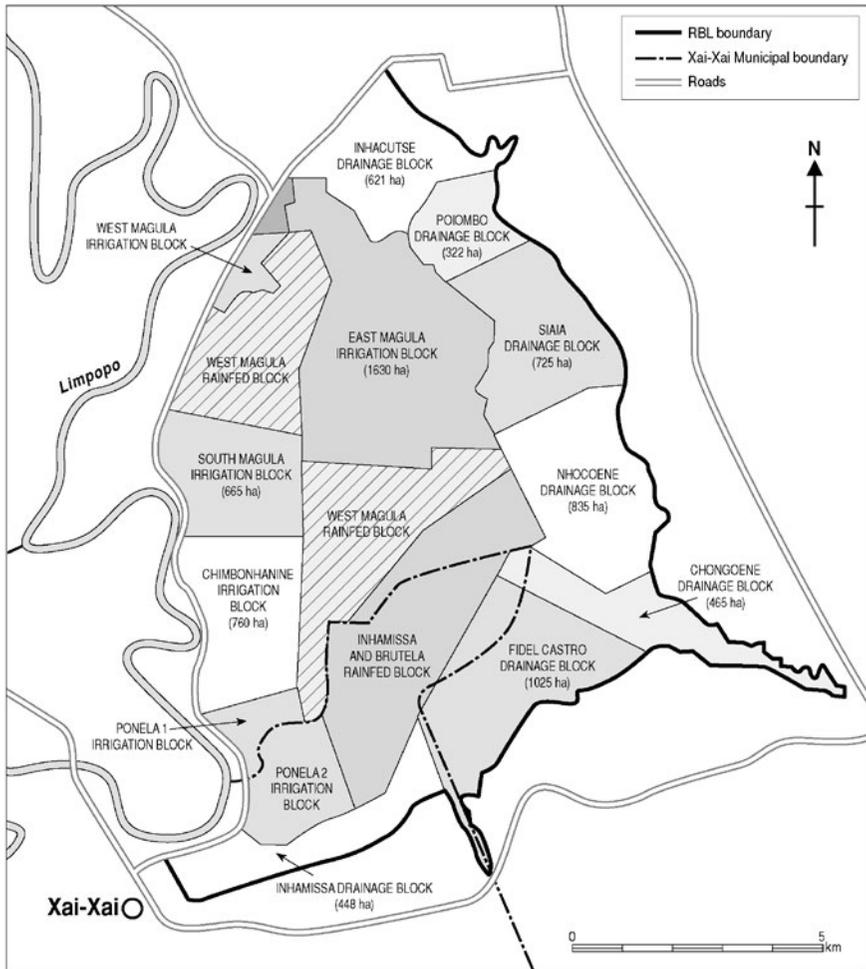
RBL's perimeter was identified at the time of rehabilitation as enclosing just under 12 000ha but has recently been extended to 70 000ha, encompassing land in the municipality and district of Xai-Xai. Its 12 000ha are organised into two main areas. Firstly, there are the irrigated blocks reserved for medium- and large-scale commercial agriculture, of which mostly Ponela (1 and 2) and Chimbonhanine are in use. A second area consists of seven 'drainage' blocks (see Map 1), situated along the south and eastern edge. These blocks are cultivated by associations of smallholders (the 'family sector'), institutionally gathered under 'agrarian houses'² whose roles include rendering services such as machine rental and commercialisation of agriculture inputs to the local associations.³ In reality, however, these 'agrarian houses' do not have the capabilities to provide these services.

1 The MDSAR was funded by the African Development Bank and its implementation entrusted to the Southern Regional Water Administration (Administração Regional de Águas, Região Sul – ARA Sul), which is a part of the Ministry of Public Works and Housing (Ministério das Obras Públicas e Habitação – MOPH).

2 The agrarian houses correspond to former cooperatives from socialist times.

3 Information gathered from interview with the head of Inhamissa's Agrarian House.

Map 1: RBL perimeter 2003-2011



Source: Cartographic Unit, University of Manchester (adapted from maps provided by RBL-EP and the City of Xai-Xai)

The optimal total number of families estimated to be able to cultivate the drainage areas was 8 000 for an area of 4 500ha at the time of rehabilitation, but occupancy rates remain uncertain and RBL-EP was carrying out a survey later in 2012. However, the commercial- and family-sector blocks do not operate completely separately, as few people live off agriculture alone and, as a consequence, resort to diverse and multiple sources of livelihoods; and a small number of individuals also have a plot in both areas. Furthermore, the drainage and irrigation blocks are linked through maintenance of the water infrastructure, as explained below.

Moreover, outside of the original perimeter, new areas are being developed or have been reserved for future developments, along with 10% to be put aside for Mozambican producers,⁴ although the areas and timing of this allocation remained unknown as at November 2012.

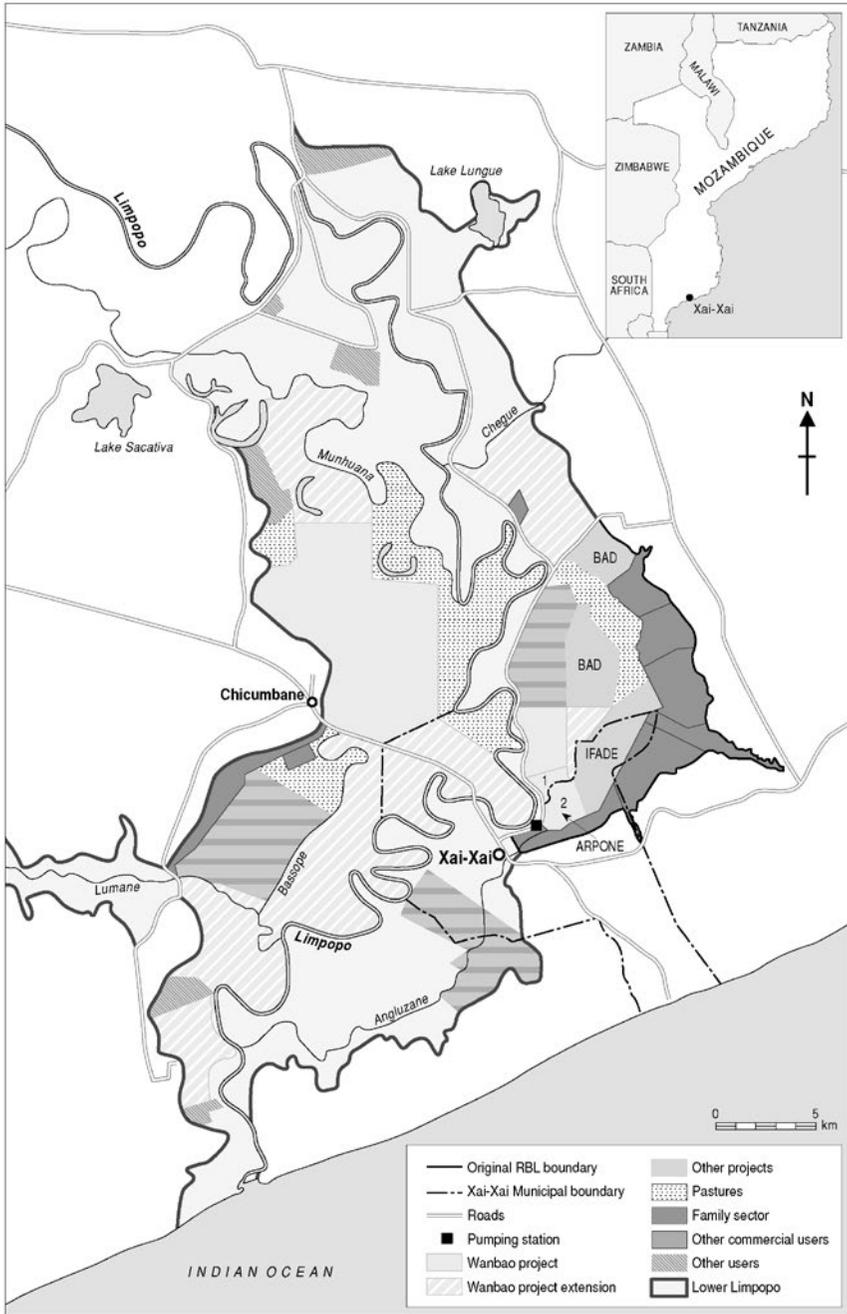
The commercial producers in the RBL general area are as follow:⁵

- Companhia Agrícola de Fomento Algodeiro (CAFA), a Portuguese cotton producer, had cultivated approximately 200ha (in Magula Block) with cotton by mid-2012;
- WANBAO African Agricultural Development (WAAD), a Chinese company, cultivates rice, and was introducing corn and wheat. By the end of 2012, it was ploughing a combined area of approximately 7 000ha (700ha in Chimbonhanine Block, 150ha in Ponela 1 Block, and 6 000ha in the Chicumbane fields), but RBL-EP granted it rights to a total of approximately 20 000ha. WAAD was brought in as a private partner into the project previously contracted with a state farm company from Hubei, China, Hubei Lianfeng Mozambique Company Ltd (HLM), in the context of a province-level, bilateral twinning agreement (DPA 2008);
- ARPONE, a farmers' association of around 40 'emerging' commercial farmers assisted and supervised by RBL-EP, cultivating an area of about 300ha in Ponela 2, which is divided into plots of 5ha. As per the twinning agreement, HLM/WAAD is to transfer rice-growing technology to Mozambican producers. ARPONE members were eventually chosen as the designated beneficiaries, across from the main drainage ditch that divides it from Ponela 1; and
- Companhia Agro-Social IGO Sanmartini, an Italian company that has begun cultivating corn and rice near the Lumane River (outside the initial RBL perimeter) and plans to expand to 2 000ha and to engage in contract farming.

4 Information gathered from interviews with RBL-EP top management.

5 Information provided is for the projects' status up to November 2012 when fieldwork research ended. In January 2013, newspapers reported extensive flooding.

Map 2: RBL (end of 2012)



Source: Cartographic Unit, University of Manchester (adapted from maps provided by RBL-EP and the City of Xai-Xai)

Institutional set-up, means of production, and results

There are also plans to grant an area within the perimeter to another rice producer from India, despite delays on the part of the investor. Meanwhile, the African Development Bank (Portuguese acronym: BAD) will finance the third and last stage of rehabilitation, while another area has been reserved for IFAD. Still within the RBL-EP area of intervention, although it is not clear if this is under its management, there is Nguluzane Agro-Pecuária, a 3 000ha cattle ranch on the southernmost border of the RBL.⁶

The parastatal, RBL-EP, is in charge of managing land and water resources and infrastructure for all users, as well as assisting associations within its area of intervention. In order to keep the irrigation scheme running, RBL-EP is responsible for the maintenance of primary canals, totalling about 100km, which is performed with machinery. Maintenance of secondary and tertiary canals is the users' responsibility and is of particular importance upstream, in the drainage areas, to eliminate excessive water in the subsoil there, but also for that water to reach the irrigated blocks through the central pumping station. Maintenance of water and road infrastructure on such a massive scale represents the most significant challenge in terms of human and financial resources for RBL-EP.

RBL-EP operates on the basis of 'exploitation agreements' with each company and association, not land titles for users' rights (known as DUAT), which it has the power to revoke. This was a significant change made official through the company's by-laws, differing from the previous model and justified as a measure to expedite and have greater control over private investment projects in the area in order to help make it financially viable (Ganho 2013, forthcoming). Terms of an exploitation contract typically include the area to be cultivated, the crop, and corresponding charges for use of infrastructure, electricity (for pumping drainage and/or irrigation water), and water if any is drawn from the river (so far, only water from springs has been used, free of charge). Electricity rates are slightly subsidised for ARPONE members.

In addition to maintenance, RBL-EP has responsibility for monitoring the activities of larger users and for providing technical assistance, financial intermediation, and diversification of activities along the value chain to 'emergent' and potential commercial producers, such as ARPONE members, in Ponela 2, and smallholders in the drainage areas. Based on observations of operations and on interviews, it appears that extension officers, which are shared with local

6 Having been sold recently by the heirs of its original colonial owners, it is partly owned by Thanda Vantu, a Portuguese company with other farms, namely in Brazil, and interests in the extractive industry (Angola), alternative energies, real estate and tourism, and trading and services, and by Marrangwe e Companhia, Lda, a Mozambican company which has connections to mineral resources and electronic engineering as well as high political connections.

authorities,⁷ are largely insufficient for the latter activities, and serious problems remain on the financial side, as analysed below.

WAAD's predecessor, HLM, began its pilot project by testing the soil and seed varieties before gradually growing them on Ponela 1 (in the region of 150ha) (DPA 2010). Yields are reported to be 9t/ha, although this does not appear to have been independently verified. Although the agreement was signed in 2008, it only began collaborating with ARPONE members as recently as in the campaigns of 2010 to 2011 and 2011 to 2012. A demonstration field was reportedly being established in late 2012. In addition to growing rice, WAAD's complex also includes ample storage and a small processing facility for dehusking and packaging the rice, which operates mostly on demand. Based on interviews with HLM and RBL-EP staff, WAAD joined HLM to provide capital for expanding the project.⁸ HML is the Mozambican subsidiary of a provincial state-owned farm company from Hubei⁹ and was chosen by the Chinese central government to take part in the implementation of wider bilateral accords with African countries (Ekman 2012; Braütigam & Ekman 2012). In other words, this entity, which has fulfilled the role of counterpart to the Gaza Provincial Agriculture Directorate (Direcção Provincial de Agricultura – DPA), would have the technological know-how to assist the GoM, at least in the pilot stage, but not the financial resources to upscale it. Handing over a project developed by a state entity to a private partner has been described as a common Chinese strategy that combines diplomatic agreements and the internationalisation of Chinese businesses, something that is known as 'going out' (Braütigam & Tang 2009). The twinning agreement of 2008 did contain a reference to granting more land in a subsequent stage, although not how much land (DPA 2010). However, the inclusion of WAAD in the project appears also to have been, in part, due to the pressure that the GoM exerted on HML.

The last stage in the expansion of cultivation in Ponela 1 was achieved due to WAAD's capital injection, for instance by allowing the project to purchase more machines, some of which were to assist ARPONE. Having proven its credentials, WAAD was then granted more land by RBL-EP. By November 2012, a large processing unit and silos were also under construction in the new compound in Chicumbane. At that time, corn was being sowed in the Chicumbane fields, although rice and wheat were supposed to have been grown there on an alternate, seasonal basis. Meanwhile, the full range of services from ploughing to dehusking has supposedly been on offer to other producers. For the 2011 to 2012 season, 14

7 District authorities (Serviços Distritais de Actividades Económicas) are now responsible for agricultural extension activities.

8 WAAD, or WANBAO African Agricultural Development Company, Ltd, is a part of the WANBAO Oil and Grain Company, also of Hubei – Ruchun 2009; Ganho 2013.

9 Hubei State Farm Agribusiness Corporation, which set up Lianfeng Overseas Agricultural Development Company, Ltd, is the parent company of the Mozambican enterprise HML.

ARPONE members received a ‘partial assistance package’ consisting of the seed, while four farmers received a ‘full assistance package’ that included the remaining services.

Table 1: List of assistive services available from HLM, and corresponding fees

Service	Fee (MTs)
Assistance in opening of ditches	5
Seeds	24/kg or 840/ha
Assistance in sowing process	(?)
Supply and application of herbicide	3 000/ha
Mechanised harvesting	3 000/ha
Transport of rice from the field to the factory	1 000/ha
Purchase of unprocessed, dry rice at 13% (humidity)	(10/kg, in Clause 4)

Source: Contract between ARPONE and HLM (ARPONE 2011)

However, various factors have contributed to their low usage: a high fee; the selection of farmers was not always in accordance with objective criteria; the limited availability on the part of the Chinese staff to provide assistance to even selected producers; and language and cultural barriers.

ARPONE members have been eligible for a revolving fund set up by the rehabilitation entity, and underwritten by the government, through a development financial institution, GAPI. They constitute a mixed group with different financial capabilities. As in so many rural areas, very few had agriculture as their primary activity, especially on that scale, despite some past experience. Many are current or retired state employees initially selected among applicants in a public process. Nothing in the selection rules prevented them from applying and they constitute one of the few groups potentially with disposable capital to invest. However, a small number of state officials seem to have been included to help smooth collaboration between local and central levels of government. Finally, among current members, there are also individuals deriving primary income from commercial activities (cattle, drinks, transport).

A fixed amount was set per hectare for funding each individual plot, including paying for machinery for ploughing, seed and herbicides, and the usage fees to RBL-EP. Machinery can be rented at a low cost from RBL-EP (limited availability and poor condition), from a few local operators (including from Chókwè) or at higher cost from WAAD, as mentioned above. Seed can be acquired from WAAD upon payment, and/or from another private operator based in Chókwè, MIA, on credit (two kg of grain per each kg of seed provided). To guarantee repayment, rice is to be sold back to the company that provided the seed, which would give the remaining rice to RBL-EP.

This arrangement becomes a problem when yields are insufficient. Farmers repeatedly cited three factors as problems affecting their yields: the late availability of funds at a time when climatic conditions were no longer optimal, thereby also increasing labour needs; unlevel soil, which causes rice to mature at different rates in different areas of the plot; and limited access to the Chinese methods and seed for the reasons mentioned above. On the other hand, there are accounts of misuse of funds by some farmers and/or refusal to pay off credit despite reasonable yields. Also cited were questions of commitment to farming work and, associated with this, the overreliance on field overseers because most ARPONE members also continued to engage in an alternative main occupation to farming. Yields have been, in the best cases, between 4 and 6t/ha, much lower than the 9t/ha claimed by WAAD. A combination of factors, rather than a single cause, is likely to be at the origin of the results, but it appears that responsibility should be borne in some respects more by the central government than the managing entity, RBL-EP, particularly concerning the enabling factors of production, and, in some cases, also by individuals (owing to a lack of effort, of a repayment ethic, and of experience).

Sanmartini has been working in a location further from the original RBL perimeter, close to Lumane River, but is now also in RBL-EP's area of intervention and is thus governed by the same type of contract. Moreover, it is using WAAD's seed (and probably selling the grain to it), while it lent some of its machinery to WAAD to open drainage ditches in the Chicumbane floodplain (Sanmartini's operations manager and WAAD's middle manager and interpreter are brothers, which could have played a role in the arrangement). So far, it has grown mostly corn, having started rice on a smaller scale more recently.

CAFA grows cotton, being the only non-food producer. It received a temporary DUAT for 3 000ha in 2006 from the Ministry of Agriculture, but has only been able to develop about 10% of the area, despite investment in water pumps. Lack of maintenance of the drainage system's primary canals has played a role, as observed in the field with the manager. RBL-EP is supposedly responsible for maintenance, but lacks the adequate resources to do so successfully. The land title has been revoked by RBL-EP and replaced with an exploitation contract, an illustration of the complex dynamics summarised at the beginning of this section. Meanwhile, production will need to be moved elsewhere, at least during the last rehabilitation stage of RBL. CAFA is also trying to develop an outgrower scheme. According to the manager, this is being hampered due to price fluctuations, but also because of a less than enthusiastic endorsement from the authorities owing to the compulsory nature of this crop in the past. Besides cultivation, CAFA performs basic processing in its large facilities for export and speaks of partnering

with other Portuguese companies to produce thread and eventually textiles around the same area.

Production and commercial capacities, and patterns of accumulation

In the light of the general set-up and organisation of the means of production described in the previous section, this paper now examines the question of whether new production and commercial capacities are being enabled by these new agricultural projects, and if the productive base has been broadened. Aspects examined are: labour, machinery, seed production and technology, processing, finance, and marketing. Market regulation of rice is explored in relation to broader strategy in the following section. The analysis here focuses on WAAD and ARPONE as examples of large and foreign projects and as an emergent, national initiative, as well as for their interrelated character.

Technical inputs

Seed production and technology

Seed varieties tested in Ponela were not properly certified before/upon entering the country by the agricultural research institute, IIAM (Instituto de Investigação Agronómica de Moçambique), and an a posteriori, remedial process is under way at the state agricultural station in Chókwè. The goal is reportedly to provide support to Mozambican producers. In the meantime, because HLM/WAAD has yet to train any RBL-EP staff in their methods, and has assisted very few producers and in an incomplete manner, the touted technology transfer to ARPONE members has only taken place to a very small extent. Were the transfer taking place for the production of seed and grain, even ARPONE members could potentially produce it if they had the appropriate drying and storage facilities, but poor seed quality, due in part to storage conditions, has been historically weak in Mozambique. Technological capacities associated with production have not, as of yet, been enhanced, but they concern both sides involved in the transfer, that is, the 'owners' and the recipients of the technology and the authorities serving as intermediaries in the deal. Furthermore, the technological solution that this 'technological transfer' represents fails, as happened frequently in recent history, to address more important problems in Mozambican agriculture. The most significant of these are highlighted in the remainder of this section and in the next.

Irrigation

A key factor of production for the intensification of agriculture is irrigation. On RBL-EP's end, inadequate and necessary funding for infrastructure maintenance seems to have been allocated under the institutional framework in place, while flood protection or repairs of damage caused by the consequent flooding were not a budgeting consideration.¹⁰ It remains to be seen whether the newly created and empowered National Irrigation Institute will be able to obtain additional funding commensurate with the government objectives of intensification of agriculture through expansion of irrigated agriculture, notably in large, state-owned schemes. On the users' end, fees are charged to recuperate operation costs on a sliding scale from commercial blocks to small-scale areas. Fixed costs in the original perimeter were, ideally, to be borne by commercial users, creating lower costs for smallholders and the state, but it is unclear when/if RBL can be made financially sustainable without heavy state support.

Machinery

The number of machines to work the fields and harvest rice has been insufficient so far, causing a high percentage of the grain to be lost. Demand has not been met on the supply side, as only a couple of private operators exist, some of which are located in Chókwè, not Xai-Xai, making contracting those services more difficult. This could be due to high investment costs and fear of not recuperating them for lack of payment from producers. Instead, producers seem to be encouraged to choose expensive leasing options to have their own machines, as a local producer in Chókwè stated. A few ARPONE members have their own tractors, mostly old, but harvesting combines lie beyond their means. On the other hand, the Chinese project imported its machinery from China, but, until recently, in insufficient numbers to assist ARPONE as well. In sum, high demand for agricultural machinery has not yet generated production or commercial linkages, at least at an affordable rate.

Finance

Agriculture is overwhelmingly regarded as a risk activity and, as a consequence, financial institutions (when they lend) tend to require credit repayment within one year, contrary to other sectors. Standard Bank eventually pulled out of the arrangements to finance ARPONE, alleging risk. Most large commercial banks present in Maputo (BIM, BCI, Barclays, Standard Bank, FNB) have offices

¹⁰ The latest flooding, in January 2013, caused a loss of that agricultural campaign and will cost US\$ 13 million to repair – VdA (Voz da América) 2013.

in Xai-Xai, but their lending interest rate is usually above 25%, to which a medium-size producer from Chókwè attested. Producers familiar with financing conditions in South Africa also point out that, in Mozambique, insurance is not usually on offer. Micro-credit institutions are also present in Xai-Xai, including Banco Tchuma and Socremo. But it was GAPI, through a microfinance scheme underwritten by the state, which lent to the majority of ARPONE members, at 10%, thanks to RBL-EP's intermediation. One member with a larger area has a long-standing relationship with a commercial bank, having bought a tractor on credit; and a couple of producers were financed by a micro-credit institution from Chókwè (CPL). Large companies such as MIA and WAAD used foreign flows, from the United Kingdom and China, respectively, to fund agricultural projects. In contrast, Banco Terra, of which GAPI is also a shareholder and was created to serve agricultural initiatives, is not present in Xai-Xai and lends mostly to producers associated with particular companies (including MIA, for example) rather than individual producers. These lending patterns remain unchanged in Mozambique despite the presence of the new agro-businesses. However, the finance sector has also been gaining a foothold in individual banking, benefiting from having Mozambicans paid increasingly through a bank account, which does not make them any more qualified for affordable credit per se, and, given the high lending rates, could create potential problems relating to personal debt in the future.

Processing

The extent of processing performed in Mozambique is a fundamental issue, as it could constitute the bedrock of rural industrialisation (Castel-Branco 2008). With regard to rice, in the south of the country (Maputo–Gaza), two companies control its value chain, WAAD in Xai-Xai and MIA in Chókwè. However, the absence of a drying area for associations and an independent factory is forcing producers to sell their rice unprocessed, preventing them from having a profit margin that would keep them in business. RBL-EP employed an agro-business marketing specialist in mid-2012 to study ways of entering, or facilitating entrance, to this value chain. This monopoly on rice processing is preventing the creation of a broader productive/commercial base.

Similarly, with regard to cotton, CAFA performs only a basic form of processing, for export. However, if plans are realised for partnering with Portuguese companies to produce thread and eventually textiles in the same area, jobs and a product surplus can be created that will diversify the economy.

Labour

Commercial production in the RBL is predominantly mechanised. Although a few ARPONE members hold a plot in both the drainage and the irrigation blocks, in keeping with traditional land-use patterns (due to rainfall), the 'family sector' lacks a clear association with either ARPONE's or WAAD's work in the fields. In contrast, many are part of MIA's outgrower scheme. At most, ARPONE members only employ a few people to scare birds away, for manual weeding, and as overseers, but they do not seem to hold plots in the drainage areas.

Moreover, WAAD employs its own Chinese outgrowers. Rather than operating on economies of scale, in this project each individual is responsible for their own small area. The applicable amount for inputs and service fees are deducted from the profit made after selling the rice for processing. Although the outgrower model is gaining popularity globally, as a way of bypassing problems associated with land rights titles, and of shifting risk away from the private operator and onto the producers, WAAD's version of the model has so far dispensed with Mozambican outgrowers. Contract conditions were yet to be decided for use of plots in Chicumbane by local residents who had swapped their farmland for a plot to be assigned elsewhere by the local authorities and possibly within the future project. On the other hand, while some jobs have been generated in constructing the new compound and ditches, they are temporary, for unpredictable and generally low pay, and always supplement Chinese labour. With regard to processing, it is still very early to draw conclusions, since the facilities were still being built. Overall, over 500 Chinese workers were expected to join the project.

In turn, CAFA has employed about 40 Mozambicans to work in the fields, in the factory and to operate machinery, peaking at around 100 for seasonal work, but has not been able to expand operations beyond 200ha.

Social base of accumulation

The 2008 twinning agreement that established the technological transfer only referred to its beneficiaries as the 'local population', leaving operationalisation subject to further interpretation. Should the terms 'smallholders' and 'local population' be regarded as equivalent, in practice smallholders from the drainage blocks would have been excluded owing to the characteristics of their plots (too wet and too small for machines) and the inaccessible fees associated with the Chinese methods.¹¹ ARPONE was chosen as beneficiaries at least one

¹¹ The Chinese outgrowers may have their fees deducted from their profits when they sell the rice to WAAD.

year after the association had been formed. There are remaining questions of whether ARPONE was the best group (i.e. the most productive) from a historical perspective and if the right conditions are in place for production to develop. However, answers can only be preliminary at this time. The only clear conclusion is that the social base of accumulation has not been broadened as it would have if smallholders had been targeted, but the demands for capital that made the state employees eligible could (in principle) contribute to make agriculture a more central feature of local livelihoods. However, inclusion of state and FRELIMO officials could indicate a perpetuation of unproductive patterns of accumulation if RBL-EP productive requirement rules are not applied (i.e. loss of user rights if a plot is left unproductive for over one campaign and a half, and limitations to 'lending' of the plot). Nonetheless, before conclusions about the social base of accumulation can be drawn in fuller terms, problems with state-assisted means of production need to be addressed, as noted above.

Marketing

Even if RBL-EP had been able to overcome the production and processing hurdles faced by ARPONE members, marketing would have remained a major challenge. Regrettably, RBL-EP only addressed this component in mid-2012, at harvest time. In order for rice to be placed on the market, it needs to be packaged, transported and distributed, and, unless the brand already has established a name, the only option is to link with a food broker/distributing agent (e.g. Delta Trading), which also incurs costs. In respect of marketing, ARPONE is competing with WAAD and MIA, both of which have their own logos and recognisable brand names, even if they only have a small market share. And, in the market place, there is important competition from cheaper, albeit less fresh, varieties from Pakistan and Thailand, an aspect addressed in the next section in the context of policymaking and regulation.

Beyond linkages: Strategies and regulations

The development of linkages alone is not enough for the broadening and diversification of the productive base of an economy, particularly in the absence of a development strategy with clear goals and means to achieve them. Even if agriculture is declared to be a development priority, this does not automatically place it at the centre of a development vision for the country, as IESE has advocated that it should (Castel-Branco 2008). As far as agriculture is concerned,

the multiple framework documents (Poverty Action Reduction Plan [PARP], five-year governmental programme), as well as strategies and plans of action (e.g. for agriculture, food, biofuels, irrigation) make it difficult to have an integrated view of the whole and do not replace a clear, overarching strategy, which seems to be missing. Although a review of the different plans of action relating to agriculture is beyond the scope of this paper,¹² a few issues that affect RBL are notable in connection with strategies and regulations within a medium- and long-term national macroeconomic vision.

Discourses of the GoM and international development institutions seem to make agriculture a development priority as a means to increase economic growth and reduce poverty, implying a simple cause-and-effect link between the three elements, when, in fact, they can be parallel and even opposite goals. Therefore, the focus needs to be on *how* agriculture can be used to achieve broad-based development that is also poverty-reducing. One option is to produce cheap food for the domestic market, which would be accessible to the population, providing the basis for processing industries and subsequently creating the need for associated services. The different sectors could promote labour-intensive development, although measures would be required to keep salaries at competitive yet liveable levels. Two other questions follow that also relate to the case study explored in this paper. The first is what is then necessary to make food commercially available at cheap prices in Mozambique? Secondly, how can domestic strategies harness foreign investment and agreements to produce food for the domestic market? A final, broader question should also ask whether all the projects in place in the RBL (or indeed the programmatic vision for RBL) conform to the same development vision and goals.

Irrigation is considered key to unlock the intensification of agriculture, and, thus, the use and/or rehabilitation of large irrigation schemes in southern Mozambique is regarded as important to the strategy. However, irrigation is just one of many elements needed for the intensification of agriculture, and the choice of a large public irrigation scheme should not be selected by default; it entails high costs that need to be weighed against social and economic goals. For instance, if the focus is to assist smallholders, what are the modalities of that assistance, and how much can the state afford to contribute towards it? Should it also allow use by private operators to help pay for fixed costs? And is it sustainable to have smallholders in large schemes producing low market-value crops such as rice? What kinds of crops should be produced there – strictly food crops, or should they be balanced with cash crops? Perhaps a viable scenario would be to combine

12 On the subject see, *inter alia*, Woodhouse 2012.

both kinds of crops so long as the cash crop would be partly destined for the domestic market. However, this would entail at least a partial focus on assisting smallholders and, thus, making social goals for the project evident, which is not clear at the moment.

The issue of increasing rice production is important to both governmental goals and the research developed by the IESE. While the GoM promotes increased domestic production of food crops, the IESE advocates import substitution for its role in the broadening of productive capacities, in the pricing of food staples and in contributing to poverty reduction. Through examining the case of rice (as in the context of the present case study on RBL), this research responds to shared questions of increased food production and the use of foreign investment. The GoM has sought assistance from different Asian countries, including Japan (Macauhub 2008; Macauhub 2011b), Vietnam (Macauhub 2011b), the Philippines (Macauhub 2006a), China (Macauhub 2006b), as well as commercial operators such as Olam (Macauhub 2011a), to bridge the national production deficit.¹³ High-level bilateral contacts with China since the early 2000s eventually resulted in WAAD's current project.

However, a blatant lack of clarity in respect of goals and objectives exists beyond that general level. If the true aim was to increase aggregate production to close the existing deficit, as several interviews seem to indicate, the technology transfer to Mozambicans would not be strictly necessary, given that production could continue in WAAD's hands. On the other hand, if the primary and/or twin goal was poverty reduction, excluding smallholders as beneficiaries of increased yields and as labourers undermines fulfilment of the labour requirement of this goal. If, however, technology transfer was the goal using medium-sized Mozambican operators, then the question of why more effort and resources have not been channelled towards this process should be raised. With technology in the balance, challenges such as language barriers and expensive fees seem to call into question the seriousness of the purported goals. Given ARPONE members' profiles, attempts at the technology transfer could also serve as a strategy for satisfying the group as an electoral constituency and FRELIMO-connected client base. Yet another possibility is that the goals have evolved according to opportunities and challenges, rather than representing a linear path in time. Overall, it needs to be underscored that using medium-sized Mozambican operators or the large-scale Chinese project, or both, corresponds to very different models of agricultural and rural development, neither of which integrate small producers. Of more

13 Government sources in 2009 put the deficit at 50% (High Commission 2009). The latest available import and production figures for the same year are for 2008, from the Food Security Portal, with the deficit at 107 913 meticias (367 913 –260 000) (IFPRI 2013). These figures should be treated with caution.

significance is that, even in a scenario where technology transfer would be taking place, problems downstream, such as marketing, and upstream, related to capital investment in the irrigation infrastructure, would remain unaddressed.

To keep the focus on the goal of import substitution, this paper now explores a few of its assumptions and the implications of rice import substitution downstream, such as essential issues that are market-related and then situates them in the sphere of regulation. The rice market is dominated by cheap imports from Thailand and Pakistan, with some from Japanese food aid (Portal do Governo 2011a and 2011b). WAAD rice sells for between 25% and 50% more than those varieties, and just under MIA's prices (see Table 2).

Table 2: Rice prices in Gaza province (2012)

Brand	Origin	Quantity/Price (MTs)	Price (MTs)/kg
Mariana (orange)	Thailand	50kg/890	17.8
Mariana (orange)	Thailand	25kg/450	18
(?)	Pakistan	50kg/930	18.6
Sasseka (green)	(?)	50kg/975	19.5
Sasseka (yellow)	(?)	50kg/1 000	20
(Chinese rice)	China	50kg/1 000	20
Boa Força Bom Sabor	China (in Indian bag)	50kg/1 070	21.4
Xirico (yellow)*	Thailand	50kg/1 075	21.5
Mariana (pink-supreme)*	Thailand	50kg/1 075	21.5
Xirico (yellow)	Thailand	25kg/545	21.8
Coral	Thailand	25kg/545	21.8
Mama Africa	Thailand	25kg/550	22
Feliz Família*	Thailand	50kg/1 100	22
Mariana (pink-supreme)*	Thailand	25kg/550	22
Top Score	(?)	12.5kg/300	24
(Chinese rice)	China	30kg/760	25.3
Lianfeng	Mozambique	25kg/700	28
Tia Rosa (MIA)	Mozambique	25kg/730	29.2

Source: author based on interviews to store managers in Xai-xai

*Most popular in Xai-Xai and Chókwe, according to store managers.

No information could be found on the 17 000 tonnes of rice donated by Japan in 2011 to be commercialised by 'private operators', only that 7 000 tonnes were destined for the southern region (Portal do Governo 2011a and 2011b). The MIA has made it clear that it cannot possibly compete with imported rice and, although it offers a cheaper variety (in the form of smaller and broken grain), it is aiming at a higher-quality market long grain, while lobbying the government for import tariffs. WAAD has not yet made its national marketing strategy known, selling only locally in Xai-Xai and in its Maputo supermarket and saving the stored grain reportedly for seed. Its long-term strategy seems to be to export to the Southern African countries. In the meantime, unless imports become more expensive, the

rice produced by the MIA, WAAD and ARPONE will remain uncompetitive. However, and in the context of purported government goals of poverty and food insecurity reduction, if cheaper options disappear from the market, rice will become inaccessible to the poorest. In that scenario or under current conditions (and unless many jobs are created and salaries are adjusted accordingly), the new rice production, rather than easing food insecurity, could contribute to make it more serious.

A single strategy to drive national development should define specific, articulated goals and coordinate across sectors to achieve them. The absence of targets and indicators in several governmental strategies (e.g. the National Irrigation Strategy, PEDSA) and corresponding resource allocation, as well as the lack of coordination among different ministries (MINAG, Industry and Commerce, Planning and Development, Finance), underscores a fundamental lack of clarity about how to achieve the desired intensification of agriculture and poverty reduction. Potentially conflicting strategies and measures by different ministries are evident in the use of rice donations by Japan, while farmers struggle to sell what they produce, partly due to competition from low-priced rice. Commenting on the donation and how it would be distributed, the Ministry made it clear that it is an instrument of income generation and inflation contention for the state to be operationalised by private operators: 'The Government hopes that this donation will contribute to stabilise the price of products on the market, so that there is no further need, after next March, to have cost control measures in force in the country.' The Minister added that 'this rice will be marketed by the private sector and resulting income will be channelled to the State's coffers, to be used later to fund education programmes under way in our country that involve Japan' (Portal do Governo 2011a and 2011b).

In addition to the discussion on rice, some comments should be made regarding the place of non-food crops such as cotton in the programmatic vision for the RBL and a national development vision and goals. Owing to changes in the managing authority of the RBL (described in detail elsewhere) (Ganho 2013), different visions and evolving strategies took shape between 2003 when the Ministry of Public Works and Housing began rehabilitation and 2011 when RBL-EP took over, and again in 2012 when its area of intervention was expanded to 70 000ha. It is significant that the programmatic vision for the irrigation scheme was still in the making one year after the company took over and that, in the meantime, projects had to be approved according to general, institutional or statutory goals ('Estatutos') or else by the central government, with the attendant problems mentioned above. For instance, the SRG and PEDSA state the double goal to increase and diversify cash crops and food crops but are elusive about

how to balance the two. Is cotton part of the grand vision for the RBL? On what basis, or by whom, was CAFA's project accepted but not a sugar-cane project (Companhia Açucareira de Moçambique), given that they are similar in status as commodities and have both historically been part of the extractive economy, geared for the export market with a low level of processing? Perhaps it is regarded as a complement means for financial sustainability of the irrigation scheme, but, if so, its role in agricultural policy and RBL's plan (including the resources allocated and the benefits that are expected to be derived from it) should be made clear.

Conclusions

This paper aimed to examine the projects located in the RBL using the approach developed by the IESE for diversifying economic growth away from extractive activities and social groups that have historically dominated the Mozambican economy. From the RBL, WAAD's project, in particular, was analysed owing to its large scale and foreign origin (as opposed to Sanmartini's much smaller scale), as well as ARPONE, as it represents a national emerging group that could potentially benefit from an accord whose purported, yet vague, goal was to transfer rice-growing methods to the Mozambican side. CAFA's cotton project was used to a smaller degree, for contrast with rice as a food crop.

The first set of conclusions indicates that the foreign projects have not resulted in the enhancement, expansion or articulation of productive capacities, or in the development of parallel linkages. Findings about the processes of organisation of production are summarised, followed by elements of the social base of accumulation and marketing. Technological capacities, including seed production, that were supposed to be transferred from HLM/WAAD, have only been enhanced minimally, for reasons that concern the 'owners' and the recipients of the technology, and the mediating authorities who would set the terms of the deal. Linkages related to inputs such as machinery have not been stimulated either, with demand on the Chinese side supplemented through imports from China. However, the suggested solution of this 'technological transfer' is reminiscent of a tendency to frame the problems as merely 'technical' and fails to address more important challenges in Mozambican agriculture. For instance, the campaign in 2012 to 2013 campaign was lost due to a lack of flood protection, that is, insufficient investment upstream, while, for the same reason, cotton cultivation also suffered from deficient drainage maintenance. Furthermore, even in a good year, rice cultivation coverage was below expectation due to unlevel plots and late arrival of funds. The latter was hampered by the difficulty in obtaining

credit. Significantly, lending patterns for agriculture and small businesses in Mozambique remain unchanged, while the finance sector makes great progress in individual banking and large projects continue to be funded through foreign flows.

Nonetheless, even in an ideal scenario of full cultivation coverage and smooth harvests, processing opportunities are limited by the monopoly of two large, foreign-owned companies, and marketing hurdles are only now beginning to be addressed. Furthermore, WAAD's and CAFAs' project has done very little to broaden or even intensify local employment opportunities. While the chances of outgrower contracts for Mozambicans appear slim, few (and underpaid) jobs in agriculture and construction have been generated. The scale and employment preferences for WAAD's cereal-processing factory remain to be evidenced. Similarly, the chances of broadening cotton processing and manufacturing are still part of future plans. As linkages to other sectors remain weak or non-existent, so does job generation. All these factors are failing to enable new productive capabilities upstream, downstream, or parallel linkages with services and labour. At the same time, the social base of accumulation has not been broadened as it would if smallholders had been targeted. Before further conclusions can be drawn in broader terms in order to know the extent to which ARPONE can represent a break with unproductive elite groups, problems with the means of production would need to be addressed.

The second set of conclusions concerns the strategic and policymaking level. The IESE's research and the research it is based on show that linkages cannot produce the desired outcome in the absence of a clearly defined development strategy with goals, targets, and means to achieve them. This work by the IESE has characterised the Mozambican economy as being dominated by extractive industries that are fuelled by large, private foreign inflows as the dominant mode of accumulation. The IESE proposes, instead, that the development strategy should be based on agriculture and rural industrialisation so as to generate cheap food, a product surplus and jobs, on diversifying the productive base and on changing social patterns of accumulation, thereby ultimately reducing poverty. However, not only has agriculture not been the driving force of the economy, but its emphasis has also remained on primary production in quantities insufficient to feed the domestic market and, at best, a low level of processing (cotton) or monopolistic processing (rice) with insufficient, poorly paid and, mostly, seasonal jobs. On the market side, conditions in order to make progress towards an import substitution scenario do not seem to be in place either; imported or donated rice is commercialised at low cost, competing with high production costs in Gaza.

It is not only what an economy produces, but for what purposes, by whom and by what means that matters in processes of economic diversification and

poverty reduction. If the government's goal with the RBL is to contribute to closing the production gap nationally, it needs to define if this is to be achieved mostly through WAAD and under what types of cultivation contracts, and it needs to take measures as to what selling prices will be asked and then establish the threshold for them in order to begin exporting. WAAD production alone may increase aggregate levels, but, even under optimal conditions, this is unlikely to diversify productive capacities to an extent that it would have an effect on poverty, given the conditions highlighted in the previous sections. If technology transfer and poverty reduction are also goals, then the state needs to provide the necessary support for emergent and smallholder groups, not only of a technical nature, but also with regard to financial and market regulation and capital investment in large-scale irrigation scheme maintenance and flood protection – ultimately, whether to 'awake' a 'sleeping giant' should not be a default option for the intensification of agriculture. This represents a strategic choice that requires the government to be clear about its goals and to display a firm commitment to how they can be achieved.

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OPPORTUNITIES AND CONSTRAINTS IN RESPECT OF AGRICULTURE IN CHÓKWĚ¹

Ana Sofia Ganho & Phil Woodhouse

Introduction

The government of Mozambique (GoM) and international development institutions alike have pushed for greater private investment in agriculture. Yet the particular impacts on social and economic development of such investment and its place in a wider national strategy have received far less attention. Research by the Institute for Social and Economic Studies (IESE) has highlighted the key structuring influence of extractive industries in the contemporary Mozambican economy. While this work has been mostly concerned with mineral and energy projects, it has also argued that such projects are representative of a wider pattern of investment termed ‘extractive economy’ whose defining features include the dominance of foreign capital flows (both public and private) and the porosity of the investment – a failure of the wider national economy to retain or benefit from value generated by this capital investment. This is reflected in the particular challenges in Mozambique for investment to both diversify and articulate economic activity. These challenges inhibit the creation of production and market linkages (‘ligações’) among ‘non-extractive’ activities, firms and subsectors, which, in turn, would also stimulate other types of economic activity and generate fiscal revenue. Agriculture is recognised as having a key role in the creation of linkages

1 This paper is an update of the first version of this work, published in the IESE’s volume *Desafios para Moçambique 2014*.

that are not dependent on the dominant extractive industries: At this stage, the production of cheap, diversified and accessible food is the main contribution that parallel linkages, particularly agriculture, may be useful for the transformation of the pattern of accumulation in Mozambique (Castel-Branco & Mandlate 2012). The provision of cheap food for consumer markets in Mozambique is regarded as not only key to maintaining or raising the value of real wages, without creating wage-cost inflation, but also to substituting food imports – both identified as indicators of a more diversified and less ‘extractive’ model of development.

However, agriculture in Mozambique is itself also the object of ‘extractive’ investment. Increased global prices of agricultural commodities, coupled with the perceived abundance of cheap land, water and labour in Africa, have made countries like Mozambique a target of growing interest in farmland investment. Average annual growth of gross domestic product (GDP) of 7.3 % for 2004 to 2012 has also been a factor in attracting investors, and the GoM has certainly made efforts to facilitate foreign direct investment (FDI) through dedicated agencies (the Centre for the Promotion of Investment [CPI] and the Centre for the Promotion of Agriculture [CEPAGRI]) and tax incentives, although the impact of the latter is disputed (Castel-Branco 2010). However, accurate data about the number and investment value of private agriculture investment projects that are actually in operation, their stage of development and their contribution to the economy are not well known. Therefore, despite government rhetoric about increasing FDI values, the scale and impact of FDI in agriculture remain largely a matter of speculation. In order to address these questions, it is necessary to establish, firstly, what investments are actually being made and their characteristics in terms of scale and reliability of economic activity. Secondly, following the IESE approach identified above, it is necessary to analyse the types of linkages that these investments create. And, finally, such strategies need to be assessed as interconnected components of clearly identified, wider development goals.

This paper seeks to contribute to the discussion of these questions through the study of a particularly important agricultural area of the province of Gaza. It offers an analysis of a sample of projects operating in and around the historical state-run Chókwè Irrigation Scheme (Regadio do Chókwè, henceforth ‘RC’) in 2012 in order to illustrate emerging dynamics involving food and non-food crops. Specifically, the paper examines the projects’ potential contribution to a strategy whereby agriculture would enable substitution of importation of basic foods and allow moving away from the current primary product-export model to one generating jobs and sectoral linkages for broader productive and commercial capacities, as well as fiscal linkages.

The paper is organised into five sections. After this introduction, Section 2 provides a summary of the geographical context of Chókwè and of its historical trajectory with regard to land use and land–water management. Section 3 describes the characteristics of the projects already operating and planning to establish themselves there. Section 4 analyses key factors for the development of new production and commercial capacities through these agricultural projects, namely natural resources and infrastructure investment, the political and institutional context, and market factors. Section 5 identifies productive and fiscal linkages analysed in terms of a broader strategy and draws conclusions to address the question of why the potential of agriculture as a means to diversify and articulate the economy has not been realised in the case of the RC and its surrounding area.

The RC area: Geography and systems of production

Despite being hailed as the granary of the nation by the late President Machel, given its reputed high yields since colonial days, the irrigated agricultural area centred on Chókwè has arguably never fulfilled the potential identified nearly a century ago. Under non-irrigated conditions, the Limpopo floodplain in Mozambique has marginal agricultural productivity. The average rainfall (622mm per year) is low, considering the high temperatures and evapotranspiration rates (1 402mm per year). Moreover, rainfall is subject to major fluctuations, such that good harvests have been estimated to occur in only about 22% of the years (BTFPL 1956:21). The high risk for agriculture is accentuated by the large fluctuation in flow of the Limpopo and its major tributary, the Elefantes (the Oliphants, upstream in South Africa). The combined monthly flow of the two rivers varies from an average 56.5Mm³ in September to 1 585Mm³ in February. Even such large (x 30) seasonal variations are magnified by variation between years. Thus, at Massingir on the Elefantes, flow in the three-month period January to March averages 952.4Mm³, but, in 2000, over the same period, it was ten times larger (9 500Mm³), contributing to record floods. Given these high levels of risk, the bulk of the floodplain, referred to as ‘manangas’ – riverine alluvial deposits overlying earlier marine (and therefore saline) sediments – was historically mostly used for grazing with relatively little cultivation, despite the much higher fertility of the floodplain soils compared with the predominantly sandy soils of the surrounding area.

Existing irrigation originated in the 1920s in plans, revised in 1951, for about 30 000ha of irrigation and flood regulation through a barrage, to settle 9 500 Portuguese families in the Limpopo Valley (Trigo de Morais 1951). Water for

irrigation was obtained from a small (15Mm³ storage) barrage on the Limpopo at Macarretane and delivered by gravity via a main canal and two bifurcated canals totalling 53.2km in length. In 1966, a preliminary design ('anteprojecto') was drafted for the Massingir Dam on the Elefantes River and construction began in 1972, to be concluded only in 1977 after independence. In 1974, one of the last reports from the Conselho Superior de Fomento Ultramarino (Portugal) reiterated the need to build a dam at Mapai as well (Gabinete do Limpopo 1974), which is yet to be built.

European settlement in the colonato was less than planned. Pignatelli (1973:4) states that the 17 000ha of irrigated land have benefited 1 550 Europeans and 1 850 indigeneous, while a Gabinete de Limpopo report stated that, in 1973, there were 1 485 colonos of whom a third (495) were African, together with 2 499 indigenous in possession of irrigated land who were effectively using irrigation on a probationary basis (Gabinete do Limpopo 1974:18). These data are broadly consistent with Hermele's (1988) analysis that European settlement peaked at 1 146 in 1968 and had fallen to 968 by 1974. They also underline the strong pressure from the African population to gain access to the irrigated land, from which many had been evicted to make way for the scheme. According to Hermele, by 1974, the 412 registered Mozambican 'settlers' (colonos) farmed an average of 5.94ha each (but 20%, or 80 of them, cultivated an average of 20ha each), together with nearly 2 600 'probationary' irrigators using 2ha each. In total, the area irrigated at independence in 1974 was just under 16 000ha. The two years after independence (1974–1976) saw the departure of most of the Portuguese and a rapid rise in the number of 'probationary' African irrigators to 6 000, with an estimated 10 000 more seeking access to irrigation (Hermele 1988). As a consequence, when in 1977 most of the irrigated area was designated as a state farm (Complexo Agro-Industrial do Limpopo [CAIL]), about 6 500 Mozambican irrigators were evicted. Six years later, the area irrigated had been expanded to about 27 000ha in order to take advantage of increased water supply from the Massingir Dam, but productivity on the CAIL was low and political pressure, due to drought and increasing threats to security, resulted in the transfer of irrigated land to 440 medium-scale commercial farmers (8 700ha) and 14 500 small-scale 'sector familiar' irrigators (10 100ha). A further 1 000ha of small-scale irrigation using water pumped from the Limpopo was constructed (1984–1985) to provide drought relief for villages at the periphery of the main irrigation system (notably in the 'bolsa de Chilembene'). In 1983, CAIL was divided into seven smaller units that continued to use the irrigated area as parastatal enterprises, alongside production cooperatives, individual 'sector familiar' cultivators, and also individual employees from these parastatals and some medium-scale private

operators, especially SEMENTEL, which originated SEMOC. By 1987, under a more general process of economic liberalisation, the remaining parastatal farms (7 500ha) were transferred to private-sector operators and corporate investors (in particular LOMACO, formed by LONRHO and the GoM). For the latter, land was made available for expansion of the irrigated area by about 3 000ha further upstream, using water pumped from the main canal between Macarretane and Chókwè. The total irrigated area in the RC at this stage was estimated at 31 000 to 33 000ha. However, as illustrated above, this total was the result of different expansion stages, in particular after independence. We distinguish particularly between, on the one hand, the areas within the historic colonato and its expansion in the period 1977 up to 1983, which are irrigated primarily by gravity from the main canal system, and the newer areas which were added after 1987 as 2 834ha (originally the Regadio Matuba–Macarretane) using water pumped from either the Limpopo River or the primary canal of the RC. The latter were originally allocated to the mixed enterprise LOMACO, but were subsequently taken over by ‘private producers’ after LOMACO ceased production in 2000 allowing its cultivation by the family sector.

In 1997, management of water delivery and irrigation infrastructure was assigned to a new state company Hidráulica de Chókwè, EP (HICEP), replacing SIREMO (Sistema de Irrigação Eduardo Mondlane), but lack of investment and flood damage led to further degradation and low levels of productivity in the central, gravity-fed irrigation area. The floods of 2000 effectively destroyed the functionality of all irrigation infrastructure, including the Macarretane Barrage. Nowadays, the RC counts a nominal total area of 33 848ha, of which 10 000 are considered too salinised for agriculture. Funding from multilateral and bilateral sources enabled partial rehabilitation and irrigation of 9 500ha by April 2013, with the expectation that 14 000ha would be available for cultivation in 2014. However, HICEP reports for 2011/2012 show a planned 8 500ha to be planted in the rainy season and 3 200ha in the dry season, with areas harvested recorded at just over half (55%) of that planned. In the 2012/2013 season, floods not only destroyed the rice crop on two-thirds of the area sown, but damaged the canal system so that it was not possible to irrigate the remaining third, which delivered yields of half of normal. Planned production for 2014 was indicated at 6 000ha in the first (rainy) season and 2 000ha in the second. According to the latest data, the effectively harvested area in the first season was about 3 600ha of which 2 600ha was for rice.

Who is cultivating what, where, and what for?

The RC is currently divided into three sectors: Sector Montante (from Macarretane to Lionde, including the area adjacent to Chókwè city); Sector Sul (comprising the areas of Lionde, Nwachicoluane, Conhane and Mapapa), and Sector do Rio (between the main drainage ditch – Vale V – and the Limpopo River (Muianga, Xilembene, Chalacuane) (see Map 1).

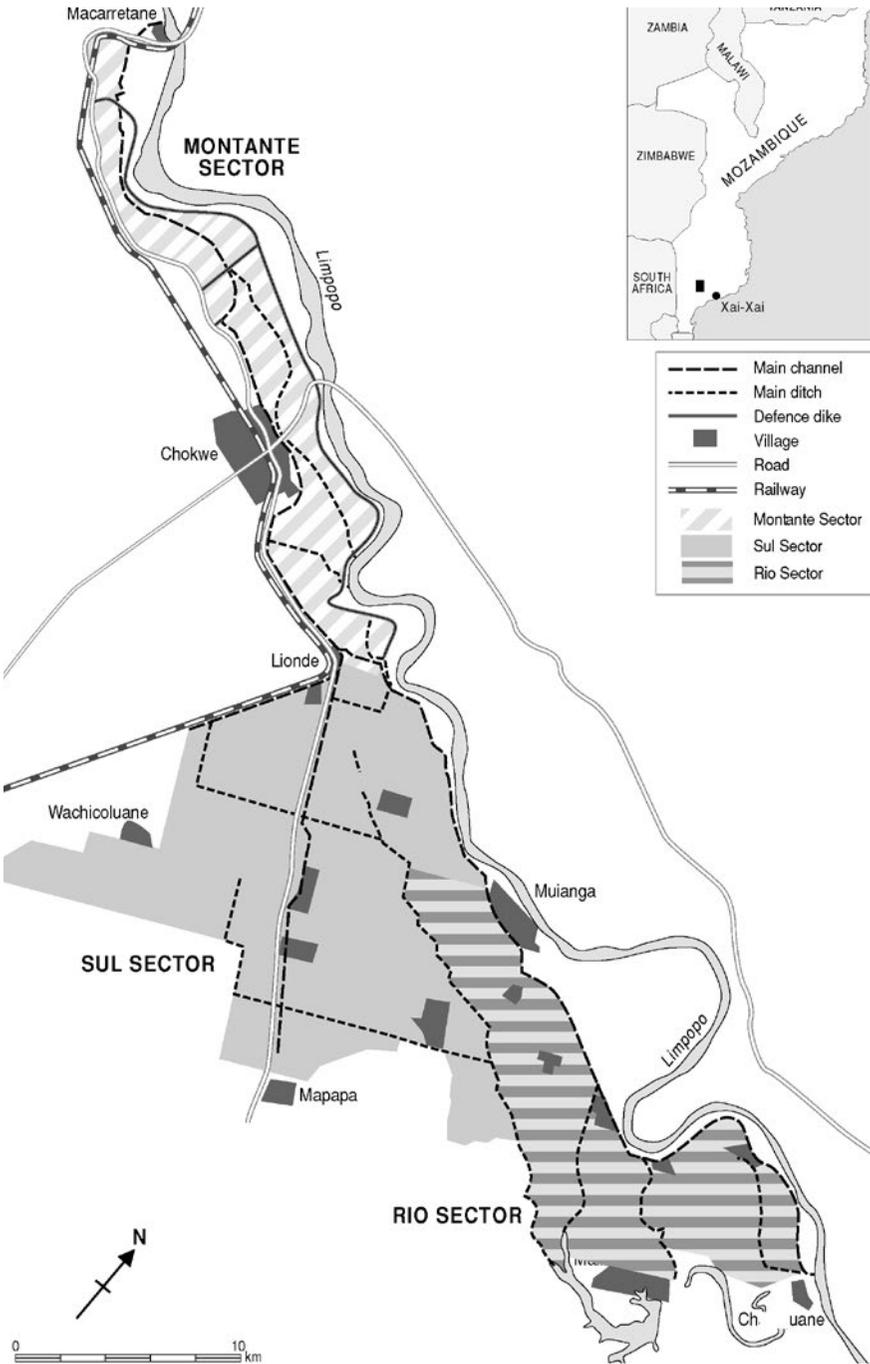
Although HICEP manages the whole perimeter, this current conceptualisation of the RC as a single irrigation scheme obscures important differentiation in terms of governance of land and water, technology of irrigation and investment patterns, especially in the newer area. We return to the characterisation of the two areas and contrast them with the standard land regime outside of the irrigation schemes later in this paper.

The RC as a whole is notionally occupied by 12 313 small- and medium-scale users growing food crops (maize, rice, vegetables), plus one large company. These areas suffer from lack of maintenance and major degradation due to flood damage to the irrigation and drainage-canal system, as described above. This results in low productivity due to salinisation (poor drainage) and lack of a reliable supply of irrigation water. In contrast, the newer private investment has focused outside this irrigation system. We now briefly consider the nature of private investments currently taking place in this area and beyond the RC.

We divide commercial agriculture in the area into two main categories: medium-sized producers and large commercial firms. In each category, we consider the location and size of area cultivated, access to water, direct cultivation of land held under title (DUAT) *as opposed to* subcontracting cultivation to smaller-scale growers, market destination, and origin of the capital investment. The selection of large companies was based on the CPI database, field observations/interviews, and information from companies' sites.

The first category of commercial farming includes a small number of medium-scale areas cultivated by Mozambicans in the Chókwè area, some of whom own a small business. A common characteristic of their early beginnings appears to be the state redistribution wave of the mid-1990s, especially of land previously under control of seed company SEMENTEL/SEMOC, in the Sector Sul. Two producers were selected. The first one, henceforth referred to as H, started his company working on a small area of SEMOC land, eventually expanding to 28ha and paying the rehabilitation costs. He is also a marketing agent for a smallholders' association using 200ha in non-contiguous irrigated areas within the RC perimeter, where water is delivered by gravity. H and his associated producers cultivate tomatoes, potatoes, cabbage, bell peppers, maize, beans, some rice,

Map 1: Chókwe Irrigation Scheme



Source: Cartographic Unit, University of Manchester, adapted from an HICEP map (2003).

tomatoes, and cucumbers. Exact financial investment values were not disclosed but appear to have been low, being generated from profits on agricultural output and made over a number of years. Use of bank finance started later ('when we became bigger'), and, although he persists with it, H regards it as a source of problems due to high interest rates. A second medium-scale farmer (R) currently cultivates approximately 150ha inside the RC, distributed between Lionde and Sector Montante. Whereas he acquired the rights to the former from family and the state, for the latter he is borrowing 80ha from a large company (see Company A below). R also has an additional 100ha registered in his name, near Macarretane Dam, outside the RC. He finances his farming from his own resources and does not use loans, arguing that it is safer not to owe money to anyone. For H and R, as generally for all producers in the area, the main markets are Maputo and Xai-Xai, where there is competition from imports from South Africa (see below). Unlike H, whose associated producers have grown some rice, R has produced mostly vegetables, maintaining that rice is not profitable under present market and production conditions. Both are planning to acquire land title for the areas in the Sector Montante now available due to withdrawal of a company included in the next category.

The second group of commercial farming consists of seven large-scale foreign projects in operation in the Chókwè-Guijá-Massingir area, although not all are operational as yet. Table 1 summarises their basic characteristics. Investment values are included in the form of intervals for confidentiality reasons. The data are from the period of 2012 to 2014.

All projects are large-scale (over 500ha), and potentially very large-scale (37 500ha), although the planted areas have not yet exceeded 400 and 1 000ha in the most advanced cases. In 2012, four out of the seven projects were not cultivating: three of them had not started yet, being at various stages of development; and Project B halted operations in May of that year due to cash flow and management problems. In addition, in October 2013, Project A was selling its assets, partly due to flood damage caused earlier in the year and company F seems to have also suspended its activities. Initial investment figures vary vastly, between US\$ 3.7 million and US\$ 740 million, in part as a function of whether an industrial component is included. Project G is classified by the Ministry of Finance as a 'megaproject', partly due to the magnitude of investment. With regard to the origin of the investing companies and/or capital, the majority come from Europe (e.g. the UK, Italy, The Netherlands, Switzerland), but there is also participation of capital from South Africa and Canada. Only Company D had an individual Mozambican partner, who has exited. Two other companies appear to have a Mozambican corporate partner. In Company E, the Mozambican share was

reduced to a residual proportion (2.2%). In Project G, there is a more substantial Mozambican holding (49%) by a consortium of corporate interests.

Only Company A produced a crop (rice) explicitly for the domestic market. Project B had been producing vegetables and rice but was considering switching to sugar cane. There was some uncertainty about whether Project C was going to grow tomatoes for making tomato paste or to buy the product from local farmers and then focus on processing. Both B and C straddled domestic and export markets, while three projects (E, F, G) were growing, or planning to grow, crops for export, and there was a particular interest in sugar cane as a 'flex' crop (sugar and/or ethanol). In all, five projects included a processing component: rice milling (Project A); tomato paste manufacture (Project C), and sugar/ethanol manufacture (Projects F and G), with Project F also planning for energy production.

With regard to location, only Company A and B were operating inside the RC, although only A cultivated land inside the scheme. Whereas Company B pumped water from the canal in Sector Montante, its farmland was not located within the RC, the rights having been acquired from a local community at the periphery of the irrigated area. Company A has formal leasehold land titles to four blocks in Sector Montante, and also cultivated an area under a 'contrato de exploração' in the Sector Sul, irrigated by gravity. Additionally, it developed outgrower schemes (contracts with groups of small-scale growers) throughout the RC and beyond. Apart from Companies A and B, all the other projects draw water from upstream, and independently of the RC: Macarretane Dam for Project C; the Limpopo River for D, E, and F; and the Massingir Dam and Elefantes River for Project G.

With regard to the land-labour regimes, as mentioned above, Project A (rice) used an outgrower scheme in addition to the land that it holds formal rights to (known as DUAT). Its outgrower scheme in Chókwè covered 3 000ha, with an additional 500ha under cultivation by smallholders in other districts. Of the total 1 500ha for which the company held a title, it was letting other users (medium-sized producers, GoM entities, smallholders associations) cultivate on approximately 400ha. Now that the company is closed, some Mozambican producers are making efforts to obtain the title transfer. Company G (sugar/ethanol) planned to have 12 000ha with contracted producers, including producers of seed cane, and 2 500ha for a smallholders' sugar-cane outgrower scheme, while 1000ha would be reserved for food crops. The company would provide land to these small producers and provide production support as part of its social responsibility programme, but however, as it was found in the field work, this company has suspended the activities. Project F (sugar/ethanol) has expressed interest in having outgrowers but details were not available. Its original plans included reserving 150ha for two associations and supporting them in respect of irrigation, technical assistance and

marketing. It is also reported to have made a deal with two of the other companies to operate nurseries on their lands. Other labour arrangements involved the direct contracting of workers, most of them seasonal. Company A employed a total of 98 permanent staff (45 in the fields), overwhelmingly male (82) and Mozambican nationals. In contrast, most of the seasonal workers, totalling between 20 and 400, were women, but these jobs were short-term and unpredictable. Company C reported employing 350 workers, of which 56 were permanent and the remaining seasonal, all of Mozambican nationality with the exception of the manager/owner. Finally, Company B reported employing 180 workers at peak times, most of whom were seasonal, but, at the time of our fieldwork, it had halted production and had only 42 employed, 12 of whom were guards. Company E stated it employed 1.4 people per ha planted and between 60 and 90 people at its banana-packing facility. Although the website places at 170ha the surface under cultivation, it is not clear what proportion of that has trees currently producing bananas. The data for Projects A, B and D indicate that, for each 10ha cultivated by these projects, the approximate levels of employment were between 1.4 and 2.3 permanent jobs and between 7.5 and 10 seasonal jobs. For Project E (bananas), permanent employment is higher (about 14 per 10ha), with an additional 90 jobs (5.3/10ha) in packing/processing.²

From the characteristics outlined above, clear differences regarding the scales of investment, credit, land use, and purposes of projects are apparent between the medium-scale Mozambican producers and the large commercial, and mostly foreign, firms. In particular, foreign-funded projects are predominantly export-focused, and with a new sugar/ethanol production dynamic and exploiting upstream irrigation sources outside the RC. In contrast, commercial food production for local markets was limited to inside the RC and has received a much smaller investment.

² The figures provided for the cultivated area and contracts of the workers are considered approximate, due to the fluctuations throughout the year. Additionally, they are not always recorded.

Table 1: Selected projects in the Chókwe-Guijá-Massingir area

	Comp	District	Area (ha)	Status ¹	Water source	Crop	Market	Origin of company
RC	A	Chókwe	Pumped irrigation area: 1 500 Gravity irrigation area: (HICEP contract): 500 (subcontracted to outgrowers): 3 000	500 3 500	RC (gravity & pumped)	Rice/Corn on contract	National	United Kingdom (UK)
	B	Chókwe	1 147	Stopped < 180ha max.	RC (pumped)	Initially vegetables, then rice. Plans for sugar cane	Initially national	Republic of South Africa (RSA)/UK Recently Canada
Outside RC	C	Chókwe	1 000	Has not started	Macarretane Dam + 'offtake sluice'	Tomatoes	National + export	UK
	D	Chókwe + Guijá	2 772 (4 areas)	400ha	Limpopo River		Local multinational	NL, RSA, Mozambique
	E	Guijá	500	170 < 100ha ²	Limpopo River	Bananas (organic)	Export	Switzerland, Mozambique, The Netherlands (NL), RSA
	F	Guijá	Non-contiguous: 15 000 Aiming for: 22 000	Has not started	Limpopo River	Sugar-cane + ethanol	Sugar: export Ethanol: partly national	Italy, Portugal, Spain, UK
	G	Massin gr	37 500	Has not started	Massingir Dam + Elefantas River	Sugar-cane + ethanol	Sugar: export Ethanol: export	RSA + Mozambique

Initial investment: US\$3.7 million – 740 million

Source: author elaboration based on the interviews done to different enterprises at Chókwe

Analysis: Key factors in the (lack of) production of cheap food

While the strategic importance of generating food from irrigated agriculture in the Limpopo Valley has been recognised since independence, it has never been realised in a sustained way. In this section, we identify three key factors in this outcome that continue to strongly block the potential for this agricultural resource to contribute to linkages in the wider national economy, both in terms of the provision of cheap food and in terms of stimulating greater capacity in respect of agro-processing and technical services rendered to agriculture. These factors are: the control and governance of land and water use; the cost and risk attached to investments in irrigation infrastructure (and, thus, questions of technical options); and the organisation of markets and market infrastructure. These are linked in the following section to strategic goals and the weight of FDI.

Governance of land and water rights

In the previous section, we identified three types of land regimes in the areas around Chókwè:

1. Outside the RC, which represents the standard land regime in Mozambique;
2. Within the RC, corresponding largely to the colonato and its expansion under the post-independence state farm; and
3. An intermediate, grey area, the Sector Montante of the RC, which had been irrigated mostly by private investors post-1987.

The different historical legacies and water infrastructure of the different land regimes translate into different structures of governance. Whereas within the RC, HICEP now has joint management of water and land, outside of the perimeter the district authorities manage rural land and ARA-Sul manages water resources and infrastructure, including dams. We will briefly review these governance arrangements outside the RC before returning to consider, in more detail, the modifications that apply within the RC.

Outside RC boundaries, private individuals can acquire formal rights over communal land areas of less than 1 000ha through district and provincial government authorities, while, for larger areas (1 000–10 000ha), authorisation for land rights is granted centrally by the Ministry of Agriculture or (for areas above 10 000ha) the Council of Ministers. It should be noted that the whole process of land rights acquisition can also be initiated and/or conducted in Maputo, through the CPI. This route is taken particularly when companies, especially of foreign origin, wish to apply for tax deductions or require procedural assistance. CPI

statistics are based on such applications, but exclude data for leasehold titles for areas smaller than 1 000ha (approved by local government), which do not appear to receive the same attention centrally for follow-up.

However, there are key challenges in these processes of allocation and management of land rights and, by association, water rights. Consulting local communities for their consent is a required stage in the process. Consultations entail delicate and, at times, contentious negotiations with local populations. Local-government authorities (including the heads of the locality, *posto administrativo*, and, in more important projects, the district administrator or even the provincial governor) mediate in presenting the project to a village. This intermediation by local powers tilts the balance against that community, insofar as the former are regarded as siding with investors and applying pressure to accept what is proposed by them. There are also important omissions in the delimitation and demarcation guidelines that have led to conflict. Identification of the rough limits to the plot forms the basis for a temporary title, followed by formal demarcation services for the final title (DUAT), upon payment by the interested party. However, not only is the law unclear about the need to have representatives of the local community present in the latter, but the areas sketched can also be different in the temporary and definitive DUAT.

Leasehold titles can be valid for up to 50 years and come with annual fees based on a number of factors, such as the type of crop. Both formal titles and informal rights are legally subject to production requirements, and the law states that failure to satisfy these entails returning the land to its proprietor, the state. Nonetheless, there is ample margin for projects not to deliver on their business plans without jeopardising possession of the title. Firstly, the law provides exemptions in case of “conditions beyond its control and responsibility” (Art. 44, Rules of the Land Law), without specifying these conditions. Secondly, scarcity of resources can hamper monitoring, unless there is competition for a particular area. Thirdly, the national land-zoning exercise has not been finalised, notably for the southern region, which should provide the basis for deciding what land is available and appropriate for what crops. Currently, there are no planning controls over the areas of different crops planted and this has significance for the ability of state agencies to direct investment towards food production. Additionally, annual land taxes are generally low (Castel-Branco et al. 2012). They are calculated based on land location, size and use. In this regard, it should be noted that ‘permanent crops’ such as sugar cane, along with cattle-raising, are charged at 5MT/ha/year compared with 37.5MT/ha/year for annual food crops (Diploma Ministerial 144/2010; ACIS 2012; Castel-Branco et al. 2012). On an area of 1 000ha, this represents an

annual saving (or loss of revenue to the Mozambican government) of 32 500MT (US\$ 1 000 per year).

Likewise, permanent crops are exempt from the adjustment index based on property size. For instance, a farm between 101ha and 1 000ha cultivating vegetables would pay a basic fee adjusted to an index of 1.5, and one with over 1 000ha would have an index of 2, that is, it would be charged a value that is double the annual basic fee. Yet, if the farm was used for cattle, game farming and permanent crops, this index would not apply, no matter how large the farm (ACIS 2012: 48–49). Fees must be paid to the registry services and the resulting revenues are consigned by 60% in favour of this unit, although the Land Law Regulation is only implied that it is the provincial level (Minister Council Decree 66/98).

In other words, these fees represent built-in incentives for cultivating cane while penalising the production of other agricultural food crops. At the same time, it remains much cheaper to grow agricultural crops outside of an irrigation scheme such as the RC, but the lack of irrigation also makes it commercially unviable. Taxation fees based on crop types are difficult to apply beyond what is stated in the DUAT because it requires monitoring companies' production activity. For instance, two companies that listed the vegetable crops as their main production later switched to sugar. Additionally, the transfer of a company's ownership usually entails transfer of DUATs, but not necessarily reconfirmation or renegotiation of the original business plans that formed the conditions under which the lease was approved.

With regard to water resource and infrastructure management, ARA-Sul is responsible for the maintenance of infrastructure outside of irrigation schemes and grants licences directly to private users, such as some of the companies discussed in this paper. This process requires applicants for licences to present documentation such as DUATs, with environmental impact assessment (EIA) studies being necessary for larger projects. To facilitate the start-up of the business, ARA-Sul offers a one-year 'memorandum of understanding' as a form of interim authorisation. ARA-Sul is also part of a wider, decentralised structure, the Limpopo Basin Management Unit, heading its Limpopo River Basin Committee (Diploma Ministerial 163/96). This body includes representatives of users of different scales, as well as the large irrigation schemes (the RC and the Regadio de Baixo Limpopo at Xai-Xai) and other state agencies from central, district and local levels (Ncube et al. 2010).

Regarding water needs and usage, many challenges of a technical and human nature exist. The state of disrepair of much of the water infrastructure, with data-collecting stations out of order, means it is not possible to make precise calculations of the water available for most of the Limpopo Valley between Massingir and Xai-

Xai. ARA-Sul and its superintendent body Direccção Nacional de Águas claim to be changing the formulas they use to make allocation calculations more accurate and more reflective of the actual agricultural consumption, but are hindered by incomplete registries/databases of users and irrigation calendars, as well as inadequate monitoring. There is also systematic under-recording of existing use because small-scale 'common uses' are not required to have a licence and, thus, do not figure as registered users. ARA-Sul also reports difficulty in obtaining irrigation plans and in completing procedures for registering and licensing large- and medium-scale 'private uses'.

This and other occurrences are symptomatic of a more general, if fundamental, political component in the process of decision-making by water bodies, involving actors at many levels, that gives an illusion of participation while reducing transparency and accountability. For example, companies do not always meet the legal requirements, especially in the end of the MoU, but the tolerance situation depends on political power in the ARA-Sul to apply penalties in interaction with the provincial government. For instance, monitoring of compliance regarding water use with the requirements of EIA reports may be neglected, especially if it is an economically important project. Similarly, the water use authorisation clauses may never be made public. Likewise, details of authorisation for water use may remain unpublished. For instance, for the high-profile Project G, it is not public if its authorisation to draw 50% of its water needs from the Massingir Dam is a 50-year concession or a more restrictive, standard licence, despite concerns about the impacts on water availability and preferential access expressed through formal channels, like the Limpopo River Basin Committee. As observed at one of its meetings, this forum can itself be the site of power imbalances, contrary to original intentions for ample participation.

While the governance arrangements outside the RC are largely separate for land and water, inside the RC, HICEP is in control of land as well as of water management. It is important to underline that the HICEP's revised by-laws ('estatutos') in 2009 combined the management of water infrastructure with land resources for the first time since 1977. They introduced 'exploitation contracts', instead of DUATs, which offer a more authoritative instrument to negotiate time frames and terminate projects. The new estatutos represent a form of centralisation, in that HICEP answers to the Ministry of Agriculture (MINAG) and not the (DPA). Although the RC is responsible for maintenance of water infrastructure within its perimeter, it purchases its water supply from ARA-Sul and charges fees to the users located within it, be it using gravity or pumped irrigation. This has enabled HICEP to displace individual small-scale irrigators in order to create contiguous blocks for more commercially oriented farming.

This has most noticeably been implemented in response to the programme of rice cultivation by Company A (Veldwisch, Beekman & Bolding 2013). Through a process of resettlement, HICEP concentrated a number of smallholders around the D11 secondary canal to work under contract to Company A. The company's power to command such reorganisation was likely due, in part, to experience and management links to the previous commercial operator in the area (LOMACO).

Nonetheless, these new powers are tempered by DUATs reminiscent of previous land arrangements, which are notoriously difficult to revoke and are a factor in the difficulties experienced by HICEP, for example in controlling the large numbers of cattle grazing within the RC. In 2012, DUATs are held by a number of producers within the RC, notably in, but not limited to, the Sector Montante. For instance, Company A signed an exploitation contract for its 500ha in the gravity irrigation area in Sector Sul (Conhane). However, it also possesses DUAT leasehold titles in Sector Montante (Matuba Blocks). This is possibly a reflection of the separate status that the Matuba plots enjoyed in the past, as well as the ties to LOMACO, the company that had been cultivating this land in the past. These plots – and the pumped irrigated area in general – constitute an intermediate or 'grey' space between the traditional RC sectors and non-RC farmland, and where enforcement of rules depends not only on the current system but also on systems previously in place and on political connections. At the time of publication of this study, the DUAT authorisation of these areas, after the withdrawal of the company A, submitted to DPA by some Mozambican producers who have cultivated the land on loan remained unanswered.

Having highlighted the land- and water-governance processes and some challenges in the practices at work, the paper now turns to investment in the infrastructure serving these resources, in relation to their productivity.

Investment and the productivity of land and water

The original plans for irrigation expansion in the Chókwè area were predicated on flood control by dams on both the major tributaries: at Mapai on the Limpopo, and at Massingir on the Elefantes. The former was never constructed and the latter has suffered chronic problems of operation and maintenance (most recently in 2008 with the failure of the main outlet structures of the Massingir dam) that have meant it has operated with a storage capacity (1 600Mm³), about half of that planned, namely 2 884Mm³ (ADB 2009). The rehabilitation to strengthen the auxiliary discharger is being done, but also for construction of an additional main discharger, the effect of which is to strengthen the integrity of the overall structure, and also increase the discharge capacity and therefore irrigation. A

number of studies (Ncube et al. 2010) have indicated that water availability and water quality have declined in the Limpopo River and some of its tributaries. The majority of these studies are on Zimbabwe and South Africa, but are relevant for Mozambique, downstream from these countries. Water quality in the Limpopo River has deteriorated as a result of a combination of decreased flows and more intensive and untreated discharges from urban, agricultural and industrial activities, producing organic and mineral pollutants. Research has confirmed, in the Chókwe area, the general unsuitability of water quality for human consumption (Ncube et al. 2010, based on Chilundo 2007). From an irrigation standpoint, the delivery of water by gravity from the Macarretane Barrage is relatively inexpensive in terms of energy consumption but requires high levels of investment in maintenance of the canals and drainage systems. The latter is particularly critical because high salinity in the subsoil means that any lack of drainage will cause salts to rise to the soil surface and accumulate through evaporation. Chronic lack of maintenance of the drainage system has resulted in the reduction of irrigated area due to salinisation, (Woodhouse et al. 1986; Mungambe 2004) which is estimated to be around 10 000ha (HICEP 2012a).

The most recent private investment project in irrigated agriculture has occurred it has tended to avoid the drainage problems of the RC by using locations upstream, although at the cost of pumping using very expensive electricity and the risk of loss of equipment to rising water levels. Of the projects analysed in this paper, only Company A was (partly) located inside the RC and reliant for the delivery of water from the main canal, while the remaining projects use water upstream of the RC: directly from the Limpopo, the Elefantas, or the dams at Macarretane or Massingir. Company B is an exception to this, drawing water from the RC main canal, while its farmland was located outside the RC. The reason provided by HICEP was that the Limpopo's water levels are too variable, and often too low, for the use of standard water pumps.

The impact of new irrigated areas on water availability needs to take account of the trends in upstream (South African) urbanisation, industrialisation and agriculture described above, and also in wider climatic trends producing more frequent and severe dry spells, as well as intense, if less predictable, rains. A study of the Lower Limpopo (Zaag et al. 2010) suggests there may not be enough water every year for all agricultural developments that the government has projected in the basin. In order to maintain 80% assurance of supply during the dry season, at the current Massingir Dam capacity, new developments would need to be limited to 38 000ha. The study's modelling did not include the projects of Companies C and D, nor a number of other, smaller, projects not detailed in the present paper. The RC's needs were estimated at 5 400ha, whereas HICEP's figure planned in for 2012/2013

was 8 000ha in the rainy season and 3 200ha in the dry season. It seems likely, therefore, that the projects already being implemented (totalling approximately 64 000ha) will exceed the capacity of water supply at 80% assurance in the dry season. Under such a scenario, the positioning of foreign investment projects upstream of the RC would provide them with preferential access to water. This is highlighted by the agreement secured by Project G (sugar/ethanol) to abstract 50% of its water directly from the Massingir Dam, effectively giving it privileged access to the most reliable source of water.

These observations suggest that water scarcity, and, therefore, efficiency in its use, are likely to become critical issues in determining the effectiveness of irrigation investment. There are grounds for arguing that the existing model, based on unfinished colonial water-engineering designs, is prone to flood damage, exacerbating the already weak management. Therefore, it is inadequate as a basis for securing cheap food production. It needs to be clear that there is ample room for progress in using the available water more effectively, especially at the RC, under HICEP's management. But this also applies to the wider carrying infrastructure outside the RC, from Massingir to Xai-Xai, managed by ARA-Sul. The RC has around 929.2km of irrigation and drainage structures, but for the campaign of 2011/2012, only 46% of drainage ditches had been maintained, along with 77.5% of irrigation canals (HICEP 2012b). The RC has historically come to be seen as a drain of public funds, given the gap between the relatively large amounts invested and the poor outputs. In part, the problem may be regarded as a failure of the model for funding HICEP and perhaps ARA-Sul.

HICEP derives revenue through at least three funding vehicles. The first comes from the state budget, more specifically a line called 'subsidy to enterprises', a lump sum over which the Ministry of Finance has discretionary powers. The amount for HICEP in 2010 was 17.62 million meticaïs (DNO 2011) for salaries and possibly water. In 2014 this amount was raised five times. Source two is based on the 'programme contract', which can include rehabilitation and maintenance works agreed with financial institutions, although the fundraising for rehabilitation should be initiated by the recently created National Institute of Irrigation. Source three comes from fees charged to users. In November 2011, it was agreed with producers that, instead of them carrying out secondary and tertiary ditch maintenance, they would pay HICEP a flat fee of 600 meticaïs/ha. A second fee, associated with water use, depends on the plot soil condition and rehabilitation work carried out, as showed in Table 2.

Table 2: Description of HICEP user fees

Description	Fee (MT/ha)	
	Infrastructure (per year)	Water (per season)
Level 1: Non-rehabilitated area with access to irrigation water	600	800
Level 2: Area rehabilitated without level soil	600	1 200
Level 3: Area rehabilitated with level soil	600	3 000

Source: Adapted from HICEP presentation (2012b)

The proportion of value recovered ('valor cobrado') in relation to what is charged ('valor facturado') varies over times, ranging around 70% since 2008, but can be lower. In turn, HICEP is charged for water by ARA-Sul, in excess of what it uses, due to the need to have a high volume of water to maintain flow by gravity, and the fact that not all areas are operational and, thus, billable. HICEP estimates that an operational area in the vicinity of 20 000ha is necessary to achieve the financial break-even point. Yet, it is arguable that solving the problem of the RC's viability requires resources far beyond those allocated to, and sourced by, HICEP. In particular, far larger investments are necessary to protect the system from repeated flood damage. Following the floods of 2000, the RC underwent several rounds of rehabilitation, usually through bilateral development organisations or multilateral financial institutions, which have included OPEC (Organization of Petroleum Exporting Countries), the Islamic Development Bank, and JICA (Japan International Cooperation Agency). In 2012, the Dutch government was assisting ARA-Sul with capacity building and reinforcement of the main protection wall ('dique de defesa') of 75km, extending from the confluence of the Limpopo and the Elefantos to downstream of the RC. On the other hand, there are attempts to extend the RC range of crops to others with a higher financial return, and thus profitable part of its space. A local entrepreneur was producing sugarcane in the upstream sector, while the attempt to institutionalise practices of HICEP was denied by the provincial governor.

As of April 2012, 9 500ha had been rehabilitated, 7 000ha in the Montante and Sul Sectors and 2 500ha in the Sector Rio. The last stage of rehabilitation was to focus on a further 4 500ha in the Sector Rio. Based on this, 14 000ha were expected for cultivation by the end of 2014. There are also plans to use parts of the salinised 10 000ha for fish farming. Nonetheless, the floods of February 2013 destroyed about two-thirds of the rice crop and damaged the canal system such that only 4 000ha remained irrigable. HICEP planned to have 6 000ha available for irrigation by the start of the 2013/2014 season in November. Longer-term rehabilitation of the irrigation system (requiring 121 million meticaís or US\$ 7 million, according to HICEP) appeared to depend on a new financing

arrangement with the Chinese Exim Bank for 8 000ha. The repeated damage to the RC infrastructure over the past two decades suggests, however, that the current approach of piecemeal repairs following flood damage is a costly and ineffective strategy. Rather, it suggests that irrigation investment in the RC can only be worthwhile if it is supported by a wider strategy of flood management in the Limpopo Valley – quite likely one that will require investment in major infrastructure (perhaps including a dam at Mapai) in recognition that future flood risks are greater than those of the past. Such a strategy will also need to prioritise an infrastructure of data gathering and early warning as much as the construction of engineering works. In a recent development that can be considered as an admission of financing difficulties of the rehabilitation works, HICEP has agreed to the entry into the RC of the Chinese company Wanbao, already operating in Xai-Xai, to rehabilitate 2 000ha for own production and 4 000ha in development system with associations. However, funding for the maintenance of machinery awaits response from the Chinese government. They have only approved other components of the same project, the processing centre and storage of agricultural products, already completed and at the tendering phase to private operators.

Input and output markets

After the political processes and investment costs of making land and water available for irrigated agriculture, the primary factor shaping the nature of agriculture's linkages to the broader economy is the market environment. Two aspects are discussed here: the markets for inputs and for agricultural outputs. Input linkages can be enabling factors in the development of productive and commercial capacities. Thus, it is relevant to understand if they are being enhanced by the new projects.

The agricultural producers, medium and large, examined in this study reported using the same companies to source their fertilisers and pesticides: Agrifocus (Mozambique), Omnia (South Africa) and Bayer (multinational), with the Mozambican producers also mentioning Agro-Tech, Twiga and TECAP. Yet, they also noted the high prices at certain times of the year, and, consequently, purchased their input supplies in South Africa whenever possible. The issue was sufficiently important to lead local producers to create the company *Servicos Agrários do Vale do Limpopo, Sociedade Anónima (SAVAL)*. In 2012, its shareholder structure included associations (35%), individual producers and private entities (35%), but also HICEP and RBL-EP (in Xai-Xai), with 15% each. They planned to source inputs from Eastern European countries through South Africa and at Maputo prices in order to circumvent the higher prices charged by

suppliers in Chókwè. The reason suggested behind high prices asked locally and the government's inaction about this was ties of current or former members of government to these companies.

Regarding machinery, large companies reported importing 'through Portugal or Brazil or South Africa'. Medium-scale producers also pay for maintenance in the purchase contract and complain of the lack of old-style, specialised shops for producers (e.g. for parts) and of commercial dealers offering machinery leasing at high interest rates. Government's occasional support in the form of subsidised agricultural machinery was not welcome if it did not include a maintenance plan and parts supply. Overall, it is difficult to estimate how much these production and commercial linkages (inputs) owe to the presence of the new, foreign projects, although they could potentially increase the market share in relation to what are considered non-competitive established suppliers.

Output markets can be defined by demand and volume of supply, but also by transport means and infrastructure. The closest markets for all fresh vegetable and rice are Xai-Xai and Maputo, and Xinavane sugar factory in Manhiça. These are accessible only by roads that are in notoriously poor condition, especially that linking Chókwè to the main N-S road (EN1) at Macia, in 2012.. Transport was reported by one company as costing 60% of revenue. In June 2014, the same road was being repaved, but floods of the last two years have also left other sections in poor condition, some which have not yet been repaired, such as nearby Macarretane. Small producers usually pooled resources to rent a truck. Company A has purchased its own trucks (in Mozambique), whereas Company C bought the trailers and contracts three local transporters, based in Manhiça, to pull and manage them. These are specialised vehicles that would not be used for other purposes other than transporting sugar cane, thus limiting the scope for parallel service linkages, and this despite the training opportunities provided for transporters.

With regard to production and market links, in the case of rice, the area cultivated by Company A was not large enough yet to produce/process in high volumes for lack of larger rehabilitated areas inside the RC portions of gravity irrigation and because of higher costs in pumped areas. Producers at times breached the contract of supply to Company A by taking rice to an old factory in Palmeiras for a higher price, as there are only eight small processing machines ('fabriquetas') in Chókwè, whilst the old rice factory in Lionde remained in a state of disrepair. They also face competition from rice imported from Asian countries and potentially from Chinese producers in Xai-Xai (Ganho 2013). In the case of vegetables, all producers tend to grow the same crops to sell in the same markets, at the same time. They also face steep competition from tomatoes coming from

South Africa. Tolerance of imports is reportedly, in 2012, due to the association of government members with shareholders of the tomato-importing trucking businesses. Nonetheless, lower production costs and higher productivity in South Africa, and a stronger metical exchange rate against the rand, can also be factors making imports competitive. As a result, some producers had stopped growing vegetables or had left their crop to rot in the fields. The issue of competition from South African produce contributed to tense relations between President Guebuza and local producers in meetings of 'Presidência Aberta' in Chókwè in 2011 and in Macarretane in 2012 (*Jornal Notícias* 25/5/2012). The lack of a cold-storage area also prevents distribution at times when prices would be higher. Construction of a complex with cold chain- and rice-processing facilities has been announced as a partnership between Instituto de Gestão e Participação do Estado (IGEPE) and the Chinese construction group Beijing Urban Construction Company (BUCG), financed with US\$ 60 million by the Exim bank of China (O País 27/5/2013). The assessment of the private operators of the facility, determined in competition, was ongoing but not yet had the details of the raw product purchasing prices or service charges for products that could be processed (rice, tomato, cashew) and stored (in addition to those already mentioned, also vegetables, corn, dried and fresh fruits). In sum, production, storage, distribution and marketing conditions currently are not conducive to the availability of cheap food produced locally.

Strategy and policies

Following the argument set out in the introductory section of this paper, agriculture should be at the centre of a wider development strategy with clear goals. Agriculture should aim to generate surpluses at low cost both to feed the population and minimise upward pressure on wage costs, thereby reducing the need for food imports, and to supply diversified food industries, including for export, and associated linkages, thus also providing rural employment and income. A key question should thus concern the extent to which the new businesses contribute to such goals, for example through cheap food, jobs, and by providing fiscal linkages (sources of state income) that could improve social equity through public goods (e.g. irrigation, agricultural extension, professional training). In weighing possibilities, the relative role of FDI should also come into focus so as not to perpetuate the current extractive economic mode and consequences. In this regard, financial aspects of the projects developing outside of the RC that affect their production are discussed briefly in this section.

The study outlined in this paper indicates, firstly, that irrigated agriculture in the Chókwe area is not, under existing trends, destined to be a source of cheap or abundant food and so contribute to reducing imports. It currently provides few production, market or fiscal linkages. Insufficient public investment in water infrastructure inside the RC is a major constraint, despite centralisation trends. Upstream, and outside the RC, costs appear to be too high to produce crops that are competitive with imports, and the need for private investment in irrigation and the low market value for vegetables and rice have made such business financially unviable. For this reason, it is significant that the HICEP has sought to widen the crops to sugar cane, though with opposition from the provincial government. Further, the linkages of agricultural production – such as they are – are dependent on the importation of expensive inputs (pesticides/herbicides, machines). These observations suggest that FDI for food production may depend on public investment in infrastructure in order to be commercially viable, which raises questions of long-term financial sustainability for the state or even on the agricultural FDI sustainability. Hence the importance of the entry of a private actor with financial power to major infrastructure, but it is a partnership between states, not a pure FDI.

Secondly, agricultural production is unlikely to contribute to diversifying exports. Outside of the RC, 'flex' crops are the dominant trend, reinforcing the weight of the sugar industry in the economy. Thirdly, the current crops do not allow for the development of broader industrial capacities: sugar only requires a limited form of processing in order to be exported; rice, too, requires only basic processing, although destined for the domestic market; bananas still require a lower level of processing with washing and packaging for export; and ethanol and tomato paste production remain distant prospects – thus their contribution to deepening industrial linkages and diversifying exports is difficult to assess. Therefore, few linkages with activities and firms were being created by the new agricultural investments, and little employment was being generated. Jobs are created in the production of sugar, for example, but they are seasonal and to a great extent unpredictable, while permanent jobs are small in number.

Finally, fiscal linkages make a negligible contribution to the economy, as the state derives insignificant income from land used (fees) or from the profits generated by agribusinesses due to generous tax incentives (Castel-Branco & Mandlate 2012). Consequently, this cannot be a source of funding for public goods such as irrigation, which remain scarce and costly for the population mainly outside RC. These elements illustrate key characteristics of an 'extractive' economy, namely the inability of the local and national economies to create and/or absorb the capital returns, capacities and outputs created by these projects. In

other words, the projects analysed seem to perpetuate Mozambique's dependence on FDI, exposing it to global extractive strategies, rather than national priorities, for investment, production and commercialisation of goods.

Trends towards this extractive model are accentuated in two ways: firstly, when part of the capital used in the agricultural projects originates in the dominant extractive sector in Mozambique, that is, mining. This is the case for Projects E and G. Secondly, this occurs through increasing financialisation of agricultural investment, understood as a 'pattern of accumulation in which profit making occurs increasingly through financial channels rather than through trade and commodity trading' (Krippner 2005: 174), with the corresponding importance of corporate governance and of shareholders' interests therein, and complex levels of intermediation. In Africa's emerging markets, such as Mozambique, investors are said to be using complex financial instruments and, contrary to what happened in emerging markets in the 1980s, do not have long-term portfolios (Nellor 2008). Although financialisation cannot be examined in detail here, it is important to signal it in the context of Mozambique's overreliance on FDI, which can be seen as taking the place of a *de facto* development strategy.

Table 3: Sectors associated with companies' investment

Company	Associated sectors
A	Food, philanthropy
B	(?) 'Capital pool company'
C	Initially food/aviation/hotels. Now cement/banking
D	Agriculture, financial sector
E	Wood/energy/mining/tourism/financial sector
F	Sugar (beet)/agricultural commodities trading
G	Sugar/mining/tourism/import-export/financial sector

Examples of the financialisation of resources at work in land and agribusinesses include:

- Participation of private investment management companies (Companies B and E) and bilateral development finance institutions in a chain of financial transactions and mechanisms (Companies D and E);
- Use of investment funds (Companies B, D, E), among other financial instruments; and
- Use of tax secrecy jurisdictions such as Mauritius, Switzerland and the Netherlands.

Financialisation can have important consequences. One effect, even after setting aside the scope for fraud, is that the structure of investment is such that pressure for short-term return on capital is maximised, leading to speculation and trading

of ownership. Change of ownership, which is characteristic of short-term financial strategy, is best exemplified by Project B, which halted operations in 2012. The shareholder structure has changed several times as a result of changes in investment vehicle (commercial bank, fund, small to medium-sized enterprise [SME]) and type (loan, equity) since the company began operating in Chókwè. In 2010, it was originally part of an investment management company's agricultural land equity fund specialising in Africa. Subsequently, it was divested from that company, coming under management of its operational partner and later transformed into a corporate holding company using the investment of another former fund and third-party capital from a 'frontier market investment banking boutique' (Private Equity Africa 2012). It was then acquired by a Canadian investment company. Significantly, the reason advanced for transforming into a holding company was that it allows for much quicker exit (*Angel News* 2012). The notorious lack of public transparency of marked changes is also a sign of the little control that the authorities in Maputo and Chókwè have on decisions taken.

Such changes also led to a focus on the international markets for the dual outputs of the sugar-ethanol 'flex crop'. By contrast, to refocus irrigated agriculture on staple food production, such as rice or vegetables, requires long-term commitment and a supportive policy framework. There are clearly severe constraints to raising the efficiency in production, processing and marketing. Aside from the long-standing problems of water management and consequent low yields of rice, there are processing and storage limitations and market-regulation hurdles. To attain high volumes and, eventually, a surplus requires time, policy intervention in respect of imports, and considerable public funding in addition to private investment. It is an indicator of the absence of such a framework that Company A announced the sale of all its assets in Chókwè just before the start of the 2013/2014 agricultural season.

A key question thus confronts the development of a non-extractive agriculture in the Limpopo Valley. It is the question of what funding is needed to secure the irrigation infrastructure against the risk of flood damage, and the role of FDI in it. Under the current FDI arrangements, private investors have been guided by a need to minimise exposure to the drainage and flood risks of the existing RC infrastructure, and to secure preferential access to water during the dry season. This has meant obtaining access to land and water upstream of the RC and close to the main water storage, the Massingir Dam. It seems clear that the counterpart to this private investment, the periodic rehabilitation of the RC by bilateral public funding, has not been on a sufficient scale to address the frequency of major and damaging floods. Above all, this suggests that a more strategic view of

flood management and infrastructure in the Limpopo is essential to any policy to generate profitable private-sector investment in food production.

Other consequences of financialisation that can only be highlighted here from the analysis of the case studies are the difficulty to verify whether promised impacts have been achieved due to the various and complex levels of intermediation of different financial institutions (Bracking & Ganho 2011: 33), and by new shareholders joining or the business being acquired altogether by new investors with new goals. In these circumstances, there is little chance for a government to demand direct accountability for problems affecting cash flows and production levels, which influence the strategic outcomes linked to the approval of the investment deal, for instance the number of jobs promised. In general, local-government authorities have demonstrated great tolerance of a business's lack of capital and have given it periods in excess of one year to improve its standing. However, the same projects of investment approved by CPI benefit from fiscal incentives. Such tax incentives reduce taxable income, but also encourage use of tax 'secrecy jurisdictions', thus reducing transparency about shareholders. These factors combine to undermine the effectiveness of a policy of reliance on foreign capital for private-sector investment.

A more fundamental question that should guide the strategy is the development goal to be attained with irrigated agriculture so that strategic choices can be made accordingly. In this paper, we have highlighted that piecemeal funding of infrastructure rehabilitation, coupled with minimal fiscal linkages from use of land and water, and a lack of positive support for the infrastructural and regulatory aspects of agricultural markets or of monitoring of job creation are key aspects so far missing from a strategy to develop irrigation as a means of diversifying and articulating the economy of the Limpopo Valley. However, in the context of an irrigated perimeter with a history of contested use, there also needs to be clarity about who the intended primary users are and whether they are compatible with strategic goals. In terms of GoM strategy, it is unclear who are perceived as the main RC users. The GoM appears torn between keeping smallholders in the RC on the one hand and raising yields on the other. The latter could require concentrating land in at least medium-sized plots and raising fees for maintenance. In this sense, rhetorically favouring smallholders whilst trying to attract corporate investors are contradictory goals. Furthermore, outside of the RC, the current processes tend to favour the concentration of high-value land in the possession of private operators, without safeguarding the productive needs of its current users or their place in strategies of production, if any are envisaged. Facilitating the entry of more sugar operators upstream from the RC has now placed the latter in a position of privileged access to water resources. This raises

the urgent need to monitor more closely than has been the case so far. Otherwise, it seems likely they will perpetuate an extractive economic mode that generates few jobs and fiscal returns while exhausting natural resources.

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THE RISE OF TOBACCO AGRICULTURE IN MOZAMBIQUE: QUESTIONS AND CHALLENGES FOR A SECTOR IN TRANSFORMATION

Helena Perez-Niño

Introduction

Starting from the late 1990s, the production and processing of tobacco leaf for export have expanded rapidly in Mozambique from an average 3 000 tonnes produced per year before 1999 to a 70 000 tonne peak in 2011. By that year (2011), exports of Mozambican tobacco were worth US\$ 217 million and represented 40.5% of the total value of agricultural exports. The expansion of tobacco agriculture has had important effects in some of Mozambique's prime agricultural districts in Niassa, Zambézia, Tete and Nampula, where most of the tobacco is grown. There are 130 000 tobacco farmers producing under contract and the sector includes thousands of seasonal labourers in agriculture and workers involved in the trading and processing of tobacco leaf. Mozambique Leaf Tobacco (MLT), the local subsidiary of Universal Leaf Tobacco, is the second-largest corporate employer in Mozambique with 5 937 employees.¹ In terms of value of exports and labour mobilisation, tobacco is the largest agricultural sector in Mozambique.

¹ The majority of the employees hired directly by MLT work on a seasonal basis for the post-harvest transport, processing and warehouse operations. Roughly 30% of the workers are employed in the processing plant in Tete Cidade, with the remainder working in the zones of tobacco production – Benfica et al. 2004; KPMG 2011.

This paper attempts to address a gap in the literature on the historical foundations and structure of the tobacco sector in Mozambique. Despite its importance, tobacco has received comparatively little attention in the academic literature on agricultural production in Mozambique. Furthermore, in the existing literature, the emphasis has been on cross-sectional comparisons that attempt to ascertain the overall socio-economic impact of tobacco. This paper proposes that advancing the understanding of the dynamics of tobacco expansion requires putting these cross-sectional studies in historical context.

The analysis of the sector is formulated around three propositions. Firstly, that the model devised to organise the production of tobacco in Mozambique reflects tensions arising from the transformation of the global tobacco industry and the limitations of domestic agricultural policy during the period of structural adjustment, but that rather than a strategy to correct or compensate for those tensions and limitations, the model passively incorporates them into the character and the functioning of the sector.

The second proposition is that the state has given generous incentives to tobacco concessionaries in order to develop productive capacity in Mozambique, but has failed to adjust the system of incentives and conditions to the current phase in which tobacco is consolidated.

The final proposition is that emphasis in designing a model for the management of tobacco concessions has been on providing the conditions for the endogenous development of tobacco agriculture in Mozambique, but that there is no master plan or strategy in place to link this sector to the rest of the economy or to create mechanisms to mobilise the rents from tobacco to support the diversification of Mozambique's productive capacity.

To substantiate these propositions, this paper traces the development and ownership structure of tobacco agriculture in Mozambique, explores the global, regional and local context which led to the adoption of tobacco farming, and links the institutional framework and the organisation of tobacco production with key tensions embedded in Mozambique's agrarian structure and reproduced in the formulation of agricultural policy.

Global tobacco industry consolidation and possible impact for Mozambique

As tobacco consumption receded in Europe and North America during the late 1990s, Africa became one of the epicentres of cigarette manufacturers and tobacco-leaf traders shifted their attention to Africa both as a source of cheap

tobacco leaf and as the fastest-expanding market for cigarette consumption (Ash 2010). The expansion of tobacco farming in Mozambique takes place in the context of these global transformations in the dynamics of tobacco production and consumption.

The cigarette-manufacturing industry has experienced remarkable expansion into new markets and sector consolidation in the past two decades, with the two main players, Phillip Morris International (PMI) and British American Tobacco (BAT), becoming mega-corporations whose yearly revenues far exceed the gross national product (GNP) of most of the tobacco-producing countries.

During the 1990s and early 2000s, the push by international financial institutions for retrieving state intervention in commodity markets and for the privatisation of state-led sectors had an impact on the cigarette industry in developing countries in which cigarette and alcoholic beverages industries had been dominated by state-owned companies and tended to be an important source of fiscal revenue.

Global capital, in the form of cigarette multinationals, made substantial investments in new geographies through the acquisition of state-owned companies in an era of frenzied privatisation. These companies benefited from their expansion into formerly controlled economies and later on from the growing demand in the same younger markets, while at the same time profiting from generous fiscal incentives granted with the intention of attracting foreign investment. The turning point in the 1990s saw the overseas profits of PMI and BAT surpassing the profits accrued in their traditional core markets (Hammond 1998).

In the 1990s, the wave of market liberalisation and privatisation allowed PMI and BAT (by then already the world's leading cigarette producers with 16% and 15% of the global cigarette market, respectively) to expand their market share and manufacturing sites in central Europe and former Soviet countries, Eastern Europe and Latin America. Global cigarette manufacturers also benefitted from the expansion of the market for tobacco in China, India and East Asia during the past decade. African cigarette consumption picked up during the 2000s, becoming one of the most dynamic poles of growth for the industry at an estimated rate of 4.3% per year in the 2000's, well above the developing world average (Ash 2010; Hammond 1998; Jaffee 2003).

The geographic expansion of cigarette manufacturers helped to counteract the increasing regulatory and fiscal pressure they were experiencing in North America and Western Europe and to lower labour and transport costs by manufacturing cigarettes closer to the regions where most leaf-buying took place. Consolidation continued into the 2000s with mid-size global players such as Imperial Tobacco Group, Altria and Japan Tobacco absorbing smaller companies (Datamonitor 2011).

While experiencing equally impressive rates of growth, the leaf-buying industry underwent a different process. In the past two decades, a pool of eight global buyers was reduced through mergers and acquisitions to two large players based in the United States of America (USA). In 1997, Dimon Incorporated, the world's second-biggest company at the time, bought United Kingdom-based Intabex Holdings, the fourth-largest. In 2007, Dimon and Standard Commercial Corporation (by then the third-biggest) merged to form Alliance One, currently the world's second-largest company after Universal Corporation.

Adding to industry consolidation, a business model emerged that accounts for most of the tobacco traded worldwide: Cigarette-manufacturing multinationals place orders for specific volumes of different types and classes of tobacco leaf with leaf-buying companies and make down payments. Leaf-buying companies then leverage these funds to finance production through a myriad of arrangements, including contract farming, the system in place in Mozambique. The inputs acquired through credit are recovered against the price paid to producers (Hammond 1998).

As will be discussed below, this was an adaptation to the profound transformations that global agriculture experienced during the period of structural adjustment, namely states retreating from active intervention in agricultural production and commercialisation (including tobacco), as well as privatisation of cigarette manufacturing and with the combined effect of both processes on the disjunction between tobacco production and fiscal revenues.

Both the business model and the dominance of leaf-buying and cigarette production by four transnational companies globally mean that leaf tobacco supply and demand (and prices) are closely managed. In the process, leaf-buying companies are redefining their role, which is increasingly more about controlling production through administering finance than about simply buying raw leaf, let alone growing it.

The leaf buyer operating in Mozambique is a subsidiary of Universal Corporation, the world's largest in the sector. Universal is based in Virginia, USA, and has subsidiaries in over 30 countries in Asia, Africa, Latin America and Europe. Universal's leaf is sourced from these various regional operations. This geographically varied procurement is considered one of the company's strengths. The company's position in the market is therefore not dependent on one single leaf-producing country. This helps to increase its global competitiveness and to control for agricultural volatility. However, Universal's revenue (valued at US\$ 2 500 million in 2010) comes from a very limited client base. According to data provided by Datamonitor (2011), over 60% of its 2010 revenue came from

just three clients: PMI (US\$ 700m), Japan Tobacco (US\$ 570m) and Imperial Tobacco (US\$ 250m).

Interrelations between tobacco-producing sectors in Southern Africa

Tobacco farming is of considerable importance to a group of countries in Southern Africa (Zimbabwe, Mozambique, Malawi, Zambia and Tanzania). Although tobacco consumption is growing in most of Africa, these countries have been historically, albeit at different stages and levels, overwhelmingly net exporters of tobacco. Malawi and Zimbabwe are the two largest producers in the region and are among the largest exporters in the world. The growth of tobacco production in Tanzania, Mozambique and Zambia can be linked to the collapse in tobacco output experienced by Zimbabwe in the period 1998 to 2006. Similarly, the liberalisation of tobacco in Malawi translated into a steep increase in the production of Burley tobacco, as smaller farmers were allowed to grow tobacco for the first time but could not afford the investment required to produce Virginia tobacco. The increase in output volumes coincided with a long depression in prices, which translated, for Malawi, into a net loss of revenue from tobacco despite the considerable expansion of output after the mid-1990s. In the last three years, Zimbabwean exports have recovered and Zimbabwe is again the largest exporter by value, having totalled exports for US\$ 664 million in 2011 as against US\$ 570 million in Malawi and US\$ 217 million in Mozambique (see Figures 1 to 3). Typically, African tobacco is sold at a fraction of tobacco produced in the USA, stressing the considerable differences in quality of produce and the low prevailing levels of wages for farm labour.²

Some geopolitical features could help explain this regional specialisation in tobacco. As has been posited elsewhere, sub-Saharan Africa concentrates a large number of landlocked countries and among the longest distances to port in the world. The comparatively extensive land mass and the slow development of transport infrastructure impose restrictions as to what can be profitably exported and a propensity for specialising around non-perishable commodities with a high value to bulk ratio (Perez-Niño 2014).³

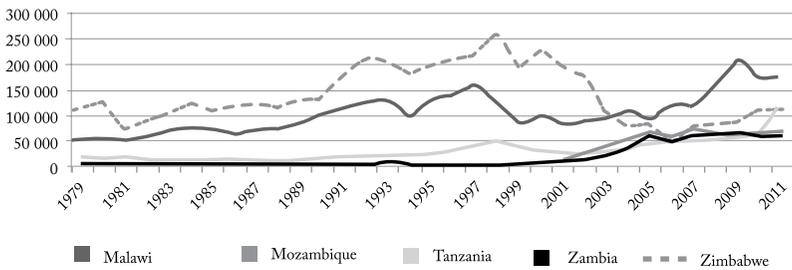
Compared with other non-perishable agricultural exports, tobacco is distinctive in tending to have higher revenue per hectare, but also for a higher demand

² FAO 2003. In 2000, the price/kg was US\$ 1.15 for Malawian Burley as against US\$ 4.31 for Burley produced in the USA.

³ These geopolitical considerations are rarely addressed in the literature that studies crop substitution within the broader literature produced by the anti-tobacco lobby – see, for example, Drum 2012; FAO 2003.

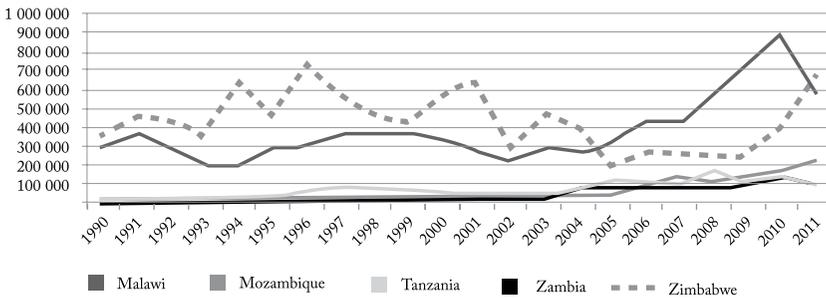
for labour (FAO 2003). Comparative revenue per hectare could help explain the continued production of tobacco in predominately agricultural economies and in economies with dynamic agricultural sectors distant to ports (Malawi, Zimbabwe); the employment generation potential of tobacco agriculture may also be functionally complementary in economies dominated by less labour-intensive mining sectors (Zambia, Mozambique).

Figure 1: Tobacco production, 1979–2011 (in tonnes)



Source: FAOStat 2013

Figure 2: Tobacco – value of exports by country, 1990–2011 (1 000 US\$)



Source: FAOStat 2013

Table 1: Tobacco indicators

	Volume of production in 2011 (MT) ^a	Value of exports in 2011 (1 000 US\$) ^a	Tobacco as a percentage of gross domestic product (GDP) in 2011 ^b	Tobacco as a percentage of total exports in 2011 ^b
Malawi	174 928	570 321	10.15	34.29
Mozambique	70 000	216 945	1.73	5.87
Tanzania	130 000	106 585	0.45	1.44
Zambia	60 329	100 778	0.52	1.14
Zimbabwe	111 570	663 596	6.87	7.50

^a FAOStat 2013; ^b The author's calculation based on WDI 2013

Beyond these as yet empirically untested hypotheses, the current development of tobacco farming sectors in several countries in the region has been characterised by dynamics that have effects beyond national borders. Although there is very limited coordination and Southern African tobacco sectors are not integrated, the main actors and processes are to be found at the regional level.

Perhaps the most prominent regional feature is the relatively undisputed dominance in tobacco-leaf trading of the two largest tobacco-buying global corporations, Alliance One and Universal Corporation (see Table 2). Whereas the institutional arrangements may help regulate the operation of this type of capital in other tobacco-exporting regions, the two large traders are not only dominant in most countries in Southern Africa, but here they also encounter less competition and regulation.

Table 2: Tobacco sectors – institutional arrangements

	Type of tobacco predominantly grown	Trading regime	Main buyers	Sector institutions
Malawi	Burley	Auction (some through contract farming)	Alliance One, Universal Corp. (90%)	Agricultural Development and Marketing Corporation –ADMARC; Malawi Leaf (trader); Malawi Rural Finance Company; Tobacco Commission of Malawi
Mozambique	Burley	Contract farming	Universal Corp.	-
Tanzania	Virginia	Contract farming	Alliance One, Universal Corp., Premium Active	Tanzania Tobacco Council (multi-stakeholder – sets prices, oversees contracts)
Zambia	Virginia 55%, Burley 45%	Selling floors	Alliance One, Universal Corp.	Tobacco Association of Zambia
Zimbabwe	Virginia	Auction 50%, Contract farming 50%	23 different registered traders	Tobacco Industry Marketing Board

Source: Drum 2012

Importantly, the regulatory strategy formulated by the states in the region is different in each country and there is little evidence of interstate coordination. Tobacco production takes place in varied agrarian structures and faces markedly different agricultural development policies and strategies. The interface between highly concentrated capital in a dominant market position with fragmented national tobacco strategies with no coordination mechanisms creates the conditions in which tobacco-leaf companies can hedge with harvests and prices and play one country against the other, whereas producing-country attempts to attract investment or compete with prices can unleash a race to the bottom.

The market position of global tobacco traders allows them great ascendancy in the region. In Malawi, where Alliance One and Universal Leaf account for 90% of the tobacco auctioned, there are persistent accusations of price-setting and collusion (Drum 2012; FAO 2003). Contiguous borders and terrestrial export

routes that extend over two or more tobacco-producing countries could also lend themselves to transfer pricing. Multinational commodity companies with myriads of subsidiaries and complex operations make state monitoring and fiscal audits demanding, thus providing increased opportunities for corporate tax evasion.⁴

In the absence of export taxes, the contribution to the domestic economy from tobacco is limited to direct payments to tobacco farmers and corporate taxes paid by trading companies for their local operations. It has been observed, therefore, that the actual benefits of tobacco exports under preferential trade agreements with the European Union and the USA intended to boost African exports (the Cotonou Agreement, the Everything But Arms [EBA] initiative, and the African Growth and Opportunity Act [AGOA]) accrue to United States (US) trading companies and are not transferred to growers (Drum 2012).⁵

The permeability and connectedness of the sectors also includes the mobility of the workforce across national boundaries and the legacy of the Southern African labour migration system that mobilised workers during the colonial period and after independence from different labour reserves in the region into the epicentres of accumulation. Transborder migration, at times fuelled by armed conflict, has alternatively expanded and contracted labour supply in the region's tobacco sectors, as was the case in Malawi and Zimbabwe during the Mozambican Civil War or as is happening now with the current influx of agricultural labourers from those same countries into Mozambique. Furthermore, transformations occurring in one producing country have had considerable effects for tobacco sectors in the other countries. For example, the contraction of Zimbabwean tobacco production in the early 2000s was compensated for by trading multinationals with additional investment to expand tobacco production in Mozambique and Zambia (Drum 2012).

Historical antecedents of tobacco agriculture in Mozambique

Tobacco was introduced to Mozambique by Portuguese traders and was traditionally grown by African farmers for domestic consumption. In the early 20th century, tobacco starts to feature as a commodity that can be exchanged for clothing and other consumables in the market and as a source of cash income to pay 'mussoco', the colonial taxes. The end of the First World War brought a wave of Portuguese settlers to southern and central Mozambique. Some of them

4 See, for example, the case of the ABF Group and the effects of corporate tax avoidance and tax breaks in the sugar sector in Zambia – ActionAid 2013.

5 This problem is not exclusive to tobacco. Investor interest in the sugar sector in Mozambique has also been linked to the availability of these preferential conditions – OECD 2005; Macauihub 2006.

engaged in growing Dark and Virginia tobacco. The districts of Malema and Ribaua in Nampula became the epicentre of tobacco production on settler estates, which grew progressively to a rough average production of 3 000 tonnes per year. Without agricultural assistance or access to credit, the relative success of tobacco production was largely predicated on the mobilisation of forced labour supplying the Portuguese estates. Navohola estimated that, by 1948, most of the workers recruited through *chibalo* in Ribaua and Malema served in tobacco plantations.

However, the volumes produced were limited and Mozambique was a net importer of tobacco from Angola and the USA. Between 1941 and 1960, tobacco output rose from 147 tonnes to 1 158 tonnes. This was accompanied by the expansion of land used in tobacco agriculture. The colonial agricultural strategy became intent on ensuring that local production could grow to displace imports and to supply the Portuguese metropolis. To this end, Nampula was declared a preferential zone for tobacco agriculture (Navohola 2010; Isaacman 1992). Throughout the post-World War II period and in the years preceding independence, tobacco estates flourished in central Mozambique on the back of forced labour and on expropriated lands. As in Malawi, African farmers were excluded from commercialisation networks as a means to curb their own production and guarantee their availability as a labour force in the sector.

But, although tobacco leaf was among Mozambique's main agricultural exports, its contribution to exports never exceeded 2% between 1955 and 1964 (Isaacman 1978). After independence, tobacco farming continued, mainly in nationalised state farms in Manica and Nampula. A total of 612 tonnes was produced in those two provinces in 1978 (Isaacman 1978). However, in the following decade, state tobacco farms were failing on account of the impact of war compounded by coordination and mobilisation problems. Critical aspects such as pricing, financing, and conditions of labour recruitment were managed by central authorities that failed to react on time to correct emerging problems. By 1985, the state started with the divestment of farms and other productive assets and, by 1993, some 400 000ha had been handed over to private interests (Pitcher 1996). In the case of cotton and tobacco, which also relied on small-scale cash cropping by Mozambican farmers, state farm divestiture was accompanied by the creation of monopsony concession rights over production areas, thereby giving birth to the model currently in place.

The granting of land concessions is portrayed in part of the literature as a recent phenomenon linked to land-grabbing and the adoption of biofuels.⁶ Quite to the contrary, few agrarian regimes have a longer history in Mozambique

6 See, for example, McDougal & Caruso 2013; Borrás et al. 2011.

than that of geographic concessions, starting with the 'Prazos da coroa' in the 17th-century Zambezi Valley and encompassing the labour reserves administered by chartered companies, the 'colonato', and cotton concessions under 'Estado Novo' (Henderson 1976; Pitcher 1991). Geographical concessions with one authorised buyer of produce were introduced in 1926 for cotton agriculture in Cabo Delgado, and continued operating as a way of organising labour and surplus extraction throughout the colonial period (Navohola 2010).

The genesis and functioning of the tobacco concessions

In the previous sections, we retraced the history of land concessions in colonial Mozambique and explored the global and regional dynamics that led tobacco-trading companies to consider expanding into Mozambique in the 1990s. This section now links structural adjustment and the retreat of the state from finance, inputs and marketing services with the adoption and expansion of a crop with the characteristics of tobacco. It is claimed that the legal and institutional regime that organises the production of tobacco was shaped in response to transformations brought about by structural adjustment in Mozambican agriculture.

In the period following the end of the Civil War, tobacco agriculture expanded in Mozambique in output terms, but it was also introduced to provinces and districts where it had not been farmed before. In contrast with the colonial period when commercial production of tobacco had been restricted to the Portuguese-owned estates, in the post-war privatisation period tobacco was adopted mainly by Mozambican farmers employing family and hired labour and using their own land.

Following the process of divestment of state farms, privatisation, and the reform of marketing boards and seed provision, farmers who required credit and assistance for the production of input-intensive cash crops were brought to a standstill because local private networks of finance and marketing were underdeveloped and undercapitalised in the wake of the war (Myers et al. 1993; Pitcher 2002).

To tackle the bottleneck created by the lack of finance and access to markets, a variation of the old system of concessions was adopted, this time in the form of interlocking markets for inputs and outputs whereby cash-crop traders provided credit for producers. In some regions of Mozambique, and for crops such as tobacco and cotton, the only channel of access to credit and assistance was – remains – through private agricultural traders. Table 3 shows the way credit and input use in Mozambique are highly skewed in favour of the mainly tobacco-growing provinces of Tete and Niassa.

Table 3: Access to credit and input use by province in Mozambique

Province	Fertiliser		Pesticide		Agricultural credit	
	Producers with access	%	Producers with access	%	Producers with access	%
Niassa	17 100	12%	10 655	11%	1 639	2%
Cabo Delgado	1 461	1%	15 862	17%	4 018	5%
Nampula	8 971	6%	8 651	9%	9 807	11%
Zambézia	1 328	1%	1 086	1%	3 514	4%
Tete	90 211	63%	35 366	37%	51 804	59%
Manica	5 607	4%	4 594	5%	1 832	2%
Sofala	1 629	1%	1 718	2%	5 927	7%
Inhambane	4 023	3%	561	6%	2 847	3%
Gaza	4 765	3%	4 590	5%	5 295	6%
Maputo Province	3 097	2%	2 705	3%	780	1%
Maputo (City)	5 335	4%	5 321	6%	507	1%
Total	143 527	100%	95 909	100%	87 970	100%

Source: INE (National Statistics Institute) 2010

Tobacco is the most input- and labour-intensive crop commercially grown in Mozambique. Like cash-crop production of cotton, tobacco is only viable using a package of inputs (seed, fertiliser, pesticides) that the state was not able to provide and for which there was no local market during the reform period. One important constraint of commodity production in general is that the majority of farmers lack the level of liquidity that would allow purchasing such inputs out of their savings. Lack of finance has been described as the binding constraint for the coordination and logistics of inputs used to increase output and commercialisation. Furthermore, inputs are needed in every agricultural season regardless of the results obtained in the commercialisation of the previous season (See Boughton et al. 2003; Poulton et al. 1998). For these reasons, agricultural credit becomes a condition for the reproduction of farmers as producers of cash crops.

In order to unlock the provision of inputs for cash-crop production, the Mozambican state appealed, during the early 1990s, for the readoption of regional concession schemes for cotton. The model of concessions was then extended to tobacco at the instance of the tobacco-trading companies that offered to start operations in Mozambique during the mid-1990s (Wuyts 2001; Pitcher 1996).

Some features of cotton and tobacco lend themselves to this type of arrangement in sub-Saharan Africa. As Benfica (2006) noted, both crops are highly dependent on purchased inputs which require complex logistical coordination at precise times during the season. Moreover, in the case of both crops, there are considerable economies of scale in processing. This characteristic favours the operation of vertically integrated production and contract farming over spot markets (Benfica 2006). Because the main outlets for both commodities are export markets, there are fewer potential buyers that could increase the incentives for side-selling in

contracts of production. Furthermore, in the case of tobacco, the high labour numbers as well as labour monitoring discourage full vertical integration.

In some districts, it is the case that non-perishable crops provide the only opportunity for farmers to engage in the production of high-value agricultural exports that typically yield higher rates of return and profitability than non-traded commodities. Non-perishable goods are less sensitive to variations in transport time to port, to the functioning of the integrated transport logistics system, and, more generally, to public investment in the transport system. A study in Zimbabwe found that tobacco offered farmers consistently higher revenues than most other crops available, while a 2003 study of tobacco in the province of Nampula found that farmers growing tobacco had higher net earnings per hectare than other farmers (FAO 2003; Ruotsi 2003). Benfica (2006) also found that, in Tete, farmers had higher total revenue, despite having higher production costs with tobacco than with other crops. In the absence of other commercial crops with reliable marketing outlets and in the context of agricultural districts that are distant from the main urban markets, tobacco – even when poorly paying – may still be the farmers' only option. Conversely, it can be said that traders can source tobacco at lower prices from hinterland districts in which the long distance to ports and markets and the lack of competing sources of cash revenue pushes producers to accept lower prices. It is likely that this pressure will be transmitted via wages to the labour force, as labour costs constitute the main component of the costs of production (Benfica et al. 2005).

The combination of all these factors, starting from those relating to the policy landscape at the time of structural adjustment and those linked to features of the production of the crop in the Mozambican context, resulted in the emergence of what is called 'the Mozambican tobacco model'.

The institutional arrangement for tobacco production

Tobacco production in Mozambique is regulated by the Tobacco Regulation (Decree 1761 of 2001 from the Ministry of Agriculture) and by the contracts established between the Mozambican state and the tobacco concessionaries. The Tobacco Regulation spells out the principles governing concessions and the role of the different stakeholders. The Mozambican model consists of three interrelated elements: interlocking markets for inputs and outputs, a contract-farming scheme as the predominant form of production, and the adoption of

geographic monopsony concessions. As described in Table 4, tobacco-producing neighbouring countries have very different institutional arrangements.⁷

The first of these elements, the interlocking of inputs and output markets, was a solution to the lack of sources of finance for agricultural producers during the post-liberalisation period in sub-Saharan Africa (Oya 2012; Poulton et al. 1998). The background of this development was that traditional financial institutions could not offer credit to producers commercially because the small scale of credits that farmers required increased the transaction costs; missing markets prevented the use of land as collateral; and, more generally, debt repayments were difficult to enforce.⁸ A way around this problem was for the agricultural traders to offer production credits to farmers directly and to secure payments against the purchase of the harvest. In contrast to banks, agricultural traders have a direct link to producers and would benefit from the improvement in quality and production unleashed by the access to agricultural credit. Interlocking markets then allow for the use of the future harvest as collateral for the repayment of production credit (Poulton et al. 1998).

To this end, the traders sign production contracts with individual farmers in which they advance credit in the form of inputs for production (seed, fertiliser, pesticides, and other production materials) and commit to buying the final produce. At the time of commercialisation, the trader discounts the amount of the initial credit from the payment that the farmer receives for tobacco. In an open market, however, it would be strategic for the farmers to sell their product to whichever trader offers better prices and to default on the original credit. Moreover, interfirm competition creates an incentive for traders to offer attractive prices to farmers for whom they did not provide credit and to free-ride on the investment of the lender. In the presence of alternative buyers, interlocking markets experience higher rates of strategic default, as has been documented in the case of cotton sectors in Ghana and Mozambique (Poulton et al. 1998; Poulton et al. 2004). In the longer run, traders are less willing to provide credit and thus productivity and the quality of the product are affected negatively.

To prevent the negative effects of strategic default, some states have opted for the creation of geographic concessions in which traders are given concessions in separate regions, thereby suppressing competition between traders. In terms of this logic, regional monopsony concessions create disincentives for farmers

7 In the case of Malawi, for instance, the majority of the production is sold at auctions where different leaf-buying companies compete for the purchase of every bale of tobacco. Tobacco produced under contract is offered a price by the contracting company, but, if the farmer is not satisfied with the offer, the option exists to find other buyers.

8 For example, seasonal credit packages for tobacco in Nampula were estimated to cost between US\$ 25 and US\$ 50 per year per farmer in a Nampula concession in 2003 – Ruotsi 2003. The rate of default in respect of credit for tobacco was reported in 2003 as being 50% among farmers operating with Stancom and 39% among farmers operating with JFS – WB 2005.

to side-sell and enable the lenders to enforce credit repayment by foreclosing alternative commercialisation channels.⁹

Three major multinational tobacco-trading companies, Dimon Inc., Stancom and Mozambique Leaf Tobacco (the local subsidiary of Universal Corp.), started operations in Mozambique during the mid-1990s, joining other companies such as SONIL and JFS which had operated in Mozambique since the colonial period but were new to tobacco trading. With the expansion of the concession model, output grew rapidly from an average 3 000 tonnes per year in the late 1990s to 9 400 tonnes in 2000, 65 042 tonnes by 2005, and 73 000 tonnes in 2007. By the time tobacco exports from Mozambique resumed in the early 2000s, some 120 000 households were involved in tobacco agriculture in eight of the 11 provinces of Mozambique, as shown in Table 4.

Table 4: Tobacco concessions in 2005

Province	Districts	Companies	Number of producers
Niassa	Lichinga, Sanga, Mavago, Muembe, Majune, Mandimba, Cuamba, Mechanhelas, Maua, Metarica, Marrupa, Niipepe, Lago, N'gauma	JFS Group Stancom (JVC with Mosagrius)	27 303 7 510
		JFS Group	2 050
Cabo Delgado	Malema (+ part of Iapala)	Stancom (JVC with SONIL)	8 000
	Ribáue & Laláua	JFS Group	12 000
Tete	Macanga, Angónia, Tsangano, Moatize, Chiúta, Marávia	MLT	39 000
	Chifunde, Cahora Bassa, Changara, & Zumbo	DIMON	4 464
Manica	Manica, Bárue, Chimoio, Espungabera & Guro	MLT	9 000
		STANCOM DIMON JFS Group	
Sofala	Gorongosa, Búzi, Nhamatanda, Maringue	DIMON	791
Gaza	Chókwè	JFS Group	22
Total			128 796

Source: WB 2005; Benfica 2006

By 2005, there were some 129 000 farmers with contracts for tobacco production. Of these, there were 34 813 farmers in Niassa and 43 464 in Tete. MLT was the main buyer and held concessions in Tete and Manica. Stancom was present in Manica and as a subcontractor of SONIL and Mosagrius in Niassa and Cabo Delgado. Dimon operated in Tete, Manica and Sofala. The other major player was JFS, a Mozambican–Portuguese business group with contracts for tobacco and cotton in Nampula, Niassa and Cabo Delgado (WB 2005).

Under the 2001 Tobacco Regulation, farmers engaged in contract farming are designated as 'Class I' producers if they do not hire waged labour and 'Class II' if they do. Independent farmers that are not bound by production contracts and

⁹ For example, the potential price premium for the farmer from selling the produce outside the concession would be offset by the additional costs of transporting the produce out of the region.

are free to negotiate the price and the buyer for their produce fall under 'Class III', and the leaf-tobacco contractors that provide credit and operate the regional concessions constitute 'Class IV'.

The tobacco-trading companies of 'Class IV' apply every year for the renewal of their concessions with the provincial directorates of agriculture. Operators must submit a proposal for production, must detail inputs, investment and reforestation plans, and must submit a final report of implementation at the end of the harvest and commercialisation season. 'Class IV' operators pay a subscription fee that is transferred to the Fundo de Desenvolvimento Agrário and a final production fee equivalent to 0.2% of the purchase price, which is paid to the DPA (provincial agriculture directorate) and transferred to the same fund. The Tobacco Regulation does not make any mention of other contributions or taxes from production, purchase or export.

Registered concessionaries in 'Class IV' are the only authorised buyers of leaf tobacco from 'Class I' and 'Class II' producers in Mozambique and must publish their purchase prices at the beginning of the commercialisation campaign and no later than 15 April every year.¹⁰ It is strictly forbidden for signatories to the contracts to sell their tobacco to third parties not included in the contract. Tobacco sold outside the contract is subject to seizure and return to the rightful concessionary (Ministério de Agricultura 2001).

Concessionaries and farmers sign individual production contracts that enumerate the rights and duties of the parties involved and list the inputs advanced to the producer as well as the prices charged and deductible at the time of commercialisation.

A district arbitration committee consisting of representatives of all producers, buyers, the district government and the community should be formed in every tobacco-growing district for the resolution of disputes between farmers and companies regarding the grading, classification and commercialisation of tobacco. The Ministry of Agriculture has an inspection unit to guarantee observance of the Tobacco Regulation by all parties.

Despite the Mozambican model starting off with several operators in the mid-1990s as described, by 2006 it had been reduced to a de facto national oligopsony in which a single firm dominates leaf-buying and processing, although a marginal trader remains. The following section traces this process of market concentration and its implications for Mozambique.

¹⁰ Note that tobacco-producing countries in Southern Africa have different regulatory systems for the classification of tobacco and different pricing mechanisms. Prices are reported to be set in Zambia before the harvest, while, in Malawi, auctioned bale are priced differently. Undoubtedly, by the time prices are published in Mozambique, traders have a good idea of the quality of the harvest and of the volume of tobacco coming to trading centres, which possibly allows for adjusting their purchasing plans to their budgets.

The formation of a national oligopsony

The mid-2000s marked a point of inflection in the trajectory of tobacco agriculture in Mozambique. It is postulated here that three processes thereafter determined the course of the sector: the development of a processing plant in Tete, which put an end to the need to send raw tobacco to Malawi for processing; the withdrawal of the Chifunde concession, which led to Dimon Inc. leaving Mozambique; and the failure of tobacco production to prosper in the province of Manica.

By the early 2000s, tobacco from Mozambique had an established presence in the international market, but tobacco had to be exported to Malawi or Zimbabwe in order to be processed and re-exported through the port of Beira, as there was no processing facility in Mozambique. This resulted in additional transport costs and presumably foregone revenue. An internal proposal was studied in the Ministry of Agriculture to introduce a 20% export tax on the value of raw tobacco in order to force trading companies to invest in leaf-threshing infrastructure in Mozambique (Benfica et al. 2004).¹¹

A 2004 internal document drafted by the Agricultural Directorate of the Ministry of Agriculture, and cited by Benfica et al. (2004), argued that such a levy would induce leaf-buying companies to invest in processing facilities and thus create employment opportunities and new sources of fiscal revenue from income tax paid by the additional processing labour force.

The export tax proposal was, however, not without a more complex context. By February 2003, MLT, the largest leaf-buying concessionary, had undertaken the construction of a US\$ 50 million processing factory in Tete with a capacity for processing 50 000 tonnes per year (Abeno 2006; Benfica et al. 2004). Considering that MLT was by then the main buyer, and that total production in 2003 was 37 051 tonnes, it is likely that MLT wanted to ensure that the installed capacity would not be underutilised. Other tobacco companies did not buy tobacco on a scale that warranted the setting up of processing infrastructure. The introduction of an export levy in this context would have forced producers to process tobacco in the threshing plant built by MLT.

MLT's processing plant was inaugurated in 2006 and the export-tax controversy petered out, but, in 2005, the government announced that the Chifunde tobacco concession in the province of Tete would be transferred from Dimon, by then merged into Alliance One, to MLT. Chifunde was the largest concession controlled by Alliance One and its loss compromised the viability of its operation in Mozambique. In May 2006, Alliance One announced that it would be pulling out

¹¹ The processing of tobacco leaves consists of the separation of the lamina from the stem and the stabilisation of the moisture levels for storage. Processed leaf is packaged for shipment to manufacturers.

of all its concessions, starting in the 2007 agricultural season, and it then proceeded to close down operations, citing political interference. Five hundred direct employees lost their jobs at the time, though many were ultimately reabsorbed by MLT. At the time, the decision to transfer the concession to MLT was seen as a reward for willingness to invest in processing (AIM 2006; Hanlon & Smart 2008).

It only emerged publicly in 2010 that MLT had been behind the proposal regarding the export tax and the transfer of the Chifunde concession. According to a complaint filed against Universal Corp., owner of MLT, by the US Securities and Exchange Commission (SEC),¹² from 2004 to 2007 MLT had paid bribes amounting to US\$ 165 000 to different officials and their relatives in the Ministry of Agriculture and the Provincial Government of Tete. A payment in 2004 was allegedly intended to promote the export levy for raw tobacco, while a series of payments in 2005 and 2006 helped secure the transfer of the Chifunde concession to MLT (SEC 2010; *SEC vs Universal Corporation* 2010; Savana 2010). Universal Corporation did not admit or deny the allegations but agreed to pay a disgorgement and a fine totalling US\$ 9.9 million. The dismissal in 2007 of Tomas Mandlate, then Minister of Agriculture and previously Governor of Tete, is believed to have been caused by this case (Hanlon 2010).

But the blurred separation of state and corporate interests could have been longer-running, as an unclassified diplomatic cable of October 2004 shows. In the communication, the Ministry of Trade and Industry proposes bilateral negotiations with the US in order to allocate Mozambique a tariff rate quota for tobacco exports that would be processed in Mozambique in a new processing plant and exported from 2005 onward. As described before, such processing plant was that of MLT (Maputo Embassy 2004).

These developments and policy debates had an impact on the structure of the sector. In the intervening years, Mozambique went from an exporter of raw tobacco that relied on its neighbours for all processing to a country that exported processed tobacco ready for shipment to cigarette-manufacturing companies, but it also went from having eight registered tobacco-trading companies and joint ventures to merely two, MLT and JFS, with the overwhelming dominance of the former (WB 2005).

The Manica tobacco experiment

It is noteworthy that, during this decade, tobacco production became increasingly concentrated in the provinces of Tete and Niassa, but did not prosper in Manica. A

¹² The SEC enforces the Foreign Corrupt Practices Act, which oversees, inter alia, investigations of corrupt conduct by American corporations.

closer inspection of the trajectory of tobacco agriculture in Manica raises questions concerning the conditions that underlie the expansion of tobacco in Mozambique.

Between 2001 and 2004, Mozambique attracted a group of 80 white Zimbabwean farmers to set up agricultural enterprises in the province of Manica. Some of these farmers had been evicted from their land during the implementation of the Fast Track Land Reform Programme in Zimbabwe and were granted land by the Mozambican state and financial support by international non-governmental organisations (NGOs) and development agencies with the idea that they could apply their experience in large-scale commercial agriculture to spearhead productivity and economic linkages in the province. The farmers themselves saw Manica as an alternative for relocation because of its proximity to Zimbabwe and the cultural and agro-ecological similarities (Hammar 2010). Hanlon and Smart calculated that, by 2003, these farmers had created 4 385 jobs, had set up four agroprocessing factories and had signed production contracts in respect of horticulture and flowers. Around half of the new farmers produced tobacco in terms of contracts with MLT and Dimon (Hanlon & Smart 2008). The dimensions of the tobacco farms were atypical for Mozambique: Hammar (2010) interviewed at least one farmer with 40ha under tobacco, but these farmers added to some 9 000 other Mozambican smallholder producers in respect of tobacco contracts in Manica by 2005.

Together, the activities of the Mozambican smallholders and of the large-scale white Zimbabwean farmers led to a short-lived expansion of tobacco farming in Manica that went from 202ha in 2001 to 1 650ha in 2004.

However, by 2006, many of the Zimbabwean farmers had amassed huge debts and, within years, most enterprises had collapsed. For some observers, the explanation for their failure lay in the fact that the farmers expected the level of support which they had routinely received in Malawi (Hanlon & Smart 2008). A more nuanced analysis found that large-scale farmers could not profitably operate under the Mozambican model of tobacco in which there is considerable uncertainty about prices, which are unilaterally set after the harvest by the tobacco-trading companies, and most had grievances about grading and classification (of tobacco leaves) which were perceived as arbitrary and unfair (Hammar 2010).

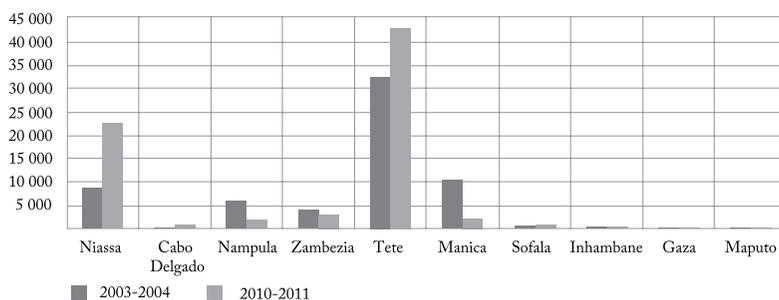
This may be an explanation for the difficulties large-scale Zimbabwean farmers experienced, but it would not help explain why Mozambican smallholder farmers in Manica also opted out of tobacco in the same period in which farmers in Tete and Niassa embraced it. As Figure 3 shows, Tete and Niassa together accounted for 66% of the land planted under tobacco in 2003. By 2011, this had reached 89%, while the other three large producers (Zambezia, Nampula and Manica) went from 33% of the area in 2003 to 10% in 2011. Manica alone went from 10

359ha under tobacco in 2004 to 2 012ha in 2011. According to the Provincial Agricultural Directorate, there are fewer than 400 tobacco growers left in Manica.

Farmers in the central districts of Manica are integrated into an array of market networks and can find outlets for different cash crops, both in and out of contract relations. In Manica, there is more competition between sectors for agricultural labour, which is likely to increase the labour costs compared with those in Tete and Niassa. The main difference with the farmers in Tete and Niassa is that the latter experience the constraints of producing in a hinterland with poor transport infrastructure and less developed intermediary services. In the face of fewer options, farmers in the hinterland may be willing to grow tobacco in spite of the low prices. In the absence of other sectors competing for agricultural labour, it is likely that wages can be pressed downwards in a way that would be unviable in Manica.¹³

To summarise, in the first decade of tobacco exports, the sector experienced an accommodation of players and an adaptation of production to the agrarian structure of different regions in Mozambique. Two trends are discernible as a result of these processes: firstly, the commercialisation of tobacco became centralised around one trading company, which grew to become the largest agricultural company operating in Mozambique;¹⁴ secondly, tobacco agriculture became concentrated in the hinterland provinces of Tete and Niassa.

Figure 3: Tobacco – area under cultivation by province (ha)



Sources: Benfica et al. 2005 for 2003–2004, INE 2010 for 2010–2011

¹³ That it was comparatively more difficult to mobilise a labour force from Manica was a point also raised by Tornimbeni 2000 to explain the consolidation of a labour reserve in Tete during the colonial period. Watts 1994 documents other cases of contract-farming schemes shifting to hinterlands with fewer trading networks and options available to producers.

¹⁴ According to KPMG 2011, in 2010, MLT was the ninth-largest company in Mozambique in terms of revenue and the largest in the agricultural sector. That year, the company reported net profits of 919 379 000 meticals.

The impact of tobacco expansion in Mozambique

This section discusses the effects of the expansion of tobacco agriculture in Mozambique. These impacts are at times paradoxical and contradictory and, therefore, in order to have a more structured evaluation, we postulate three levels of analysis. The first level encompasses the impact at the local level in terms of the welfare and livelihoods of the households that take part directly and indirectly in the production of tobacco; the second examines the adoption of tobacco in terms of the effectiveness of the institutional arrangement in solving productive bottlenecks, raising productivity and securing a competitive share of the final price for growers; and the third, at the macroeconomic level, evaluates the impact of the expansion of tobacco in terms of the contribution of the sector to the transformation of the relations of production and to the process of structural modernisation of the economy.

Effects of tobacco adoption for farming households

There are only a few studies looking comparatively at the socio-economic status of households engaged in tobacco in relation to the general rural population and only one attempt at a longitudinal comparison. This poses some limitations to understanding the impact of tobacco agriculture, making it difficult to ascertain whether the reportedly higher levels of income and land owned by tobacco farmers is the consequence or the cause of their adoption of tobacco. This also compromises the analysis of available data that otherwise indeed suggests that the adoption of tobacco may have played an important role in the rapid growth of net household incomes in Tete and Niassa during the period from 1996 to 2002. Benfica (2006) conducted a survey on income levels of farmers engaged in cash-crop production (tobacco and cotton) for purposes of comparison with farmers that were not growing cash crops. This survey was undertaken in 11 districts in Tete and Sofala and the sample included 130 tobacco framers, 90 cotton farmers and 80 farmers that did not grow tobacco or cotton. Although the survey found considerable differentiation among tobacco growers, with up to 30% of the farmers engaged in tobacco experiencing losses during the harvest observed, it also established that the income of tobacco-growing households in the sample was, on average, twice as high as that of their neighbours not growing tobacco (US\$ 1 815 for tobacco growers as against US\$ 844 for non-tobacco growers). Furthermore, twice as many tobacco growers hired in labour and such growers also surpassed non-growers in terms of household assets and size of landholding. In a comparison of the results of the National Agricultural Survey (TIA) for

1996 and 2002 (Boughton et al. 2006), found that Tete and Niassa ranked second and fourth, respectively, in terms of mean net household income and that both provinces had experienced the fastest household income growth among all provinces in Mozambique in the intervening period. The authors linked these results to the expansion of tobacco. An analysis of the 2002 survey by Walker et al. (2004) looking at the determinants of rural income also found a strong association between households growing tobacco, faster-growing household incomes, and falling household poverty levels. Agricultural surveys and censuses carried out in Mozambique consistently show that both the use of fertiliser and access to credit are strongly concentrated in tobacco agriculture. Data from the 2002 agricultural survey reported that only 2.6% of non-tobacco growers used fertiliser as against 32% of farmers growing tobacco. By 2011, the use of fertiliser was further skewed: the agricultural census (CAP) that year found that Tete and Niassa accounted for 80% of the agricultural units that used fertiliser and for 60% of the units that had access to agricultural credit (Table 5). This serves to reinforce the idea that the adoption of tobacco, rather than a choice by farmers, may be their only chance to access the services and inputs necessary to engage with cash-crop production (Oya 2012).

Evaluating the effectiveness of the institutional arrangement

The concession model has been subject to debate in Mozambique and is generally blamed for the poor past performance of the cotton sector. Concessionary companies have in the past complained about side-selling, high default rates, and the state's incapacity to enforce the terms of the concessions, while farmers have protested against arbitrary price-setting and purchasing practices (WB 2005).

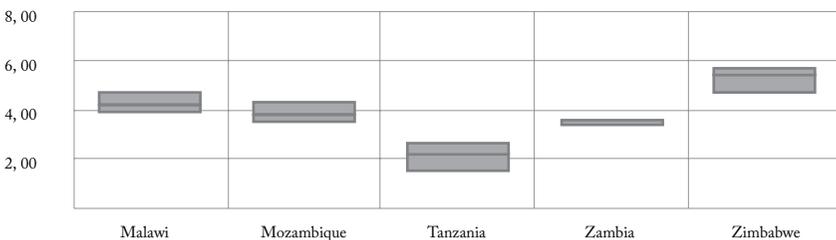
It is challenging to compare the social efficiency of different international institutional arrangements in the case of tobacco given the information available for Mozambique. The most straightforward metrics, the prices received by growers and their share of the final price, are particularly challenging to ascertain in the case of tobacco.¹⁵ Research comparing the closed regional monopsony system in Mozambique with liberalised or partially controlled systems in the region has only been undertaken for cotton. These studies have found that the Mozambican concessions model led to the lowest average producer shares of prices in the period 1995 to 2002 within a sample of seven cotton-producing African countries and one of the lowest average export values per hectare

15 Tobacco leaf of different varieties is not sold in bulk but is classified and graded according to a complex system that groups each leaf according to approximately 45 different categories such as size, position in the plant, colour and quality. Leaves grouped by category are packed in separate bales. Not only do different categories fetch different prices, but different countries also have different grading systems, making cross-country comparisons challenging.

(Boughton et al. 2003). Poulton et al.(2004) analysed a different subset of cotton-growing countries and also found that the Mozambican institutional arrangement compromised the efficiency of the sector: While the monopsony concessions solved many of the coordination problems that cash-crop production faced after structural adjustment, the lack of competition among ginners translated into poor prices for cotton growers. The authors also noted that the granting of large geographic concessions with no serious monitoring and retendering mechanism put in place by the state contributed to the stifling of the sector.¹⁶

It would be unadvisable to extrapolate from observations in the cotton sector. Mozambican tobacco has gained a reputation for quality and cross-country comparisons indicate that it fetches higher export prices (see Figure 4). However, some of the observations made for cotton resonate in the case of tobacco. The regional monopsony has secured access to credit, inputs and markets for tobacco producers, but no mechanism was put in place to allow farmers to push for higher prices, and the state's intervention has led to the consolidation of the non-market advantage granted to the concessionary rather than to its disciplining. Concessionaries have the prerogative of setting the prices unilaterally and producers have no meaningful say in the process (WB 2005). Suppressing the effect on prices of supply and demand dynamics means that Mozambican producers do not experience price booms.

Figure 4: Plot of mean tobacco export value per ha for the harvest years 2007–2011



Source: The author with data from FAOStat 2013

Arbitrage committees and provincial institutions intervening in order to mediate have been effective in addressing commercialisation crises involving the whole

¹⁶ The FAO recently published a report attempting to establish the farmers' share of the export price for tobacco in Mozambique – Dias 2013. The report found a substantial gap between the farm-gate price and the reference price and concluded that the concession system results in the state privileging the interests of trading companies over those of the tobacco farmers. The results of this report will not be discussed here, as the report itself acknowledges many methodological and empirical limitations to the analysis.

concession, but are less effective on a case-by-case basis when classification conflicts arise between an individual farmer and a company.

Furthermore, concentration of tobacco in hinterland areas, although linked to growing household incomes for a section of the producers, is taking advantage of the availability of low-paid wage labour and the lack of feasible alternatives to cash-cropping.

Media reports and my own fieldwork reveal persistent inconformity on the part of the growers with the mechanisms in place to arbitrate conflicts with the concessionaries around the classification and grading of tobacco. It has been observed in other concessionary systems that buyers use subjective criteria for classification and rejection of tobacco leaf as a means to adjust their total purchases to their budget. With only one legal buyer, tobacco farmers have no outlet for the leaf that is not bought by the trading companies.

In the absence of appropriate regulation, active intervention and regular monitoring by the state, there is the risk that concessionary companies will abuse their monopsony position via prices or via quality control. In the first case, concessionaries set prices that fail to transfer to the producers the rents obtained by operating without competition. In the second case, companies implement arbitrary classification standards and practices that, by lowering the qualification of the tobacco produced by farmers, severely reduce their profits and shift the risks and uncertainty associated with agricultural production disproportionately onto producers (WB 2005).

Limited contribution to fiscal revenue

A number of fiscal incentives in the agricultural sector are in place in Mozambique with the purpose of attracting investment and increasing production. Agricultural firms with revenue below 750 000 meticaïs are exempt from paying VAT (value-added tax), as are all agricultural producers in respect of their sales to traders (Mertens 2012). This exempts tobacco-trading companies from paying VAT on their purchases of tobacco from producers.

All firms operating in agriculture benefit from an exemption from VAT and a 50% discount on taxes on gasoline (Hamela 2012). For companies in the agricultural sector, an 80% discount on corporate income tax (IRPC) has been in place since 2002 and has been extended by law until 2015 (it will progress to a 50% discount for the period 2016 to 2025). Finally, the construction of the tobacco-processing plant was registered with the Mozambican Investment Corporation (CIP) in terms of which investment of this nature is eligible for five years of additional deductions from IRPC equivalent to up to 10% of the total

value of the investment in the case of companies operating in the province of Tete (Ossemame 2011).¹⁷ As discussed earlier, there is no export tax for tobacco and no substantive contribution to a tobacco fund in any stage of trading as there is for other traded cash crops in Mozambique.¹⁸

The combination of these incentives and exemptions, plus the fact that all tobacco produced in Mozambique is exported tax-free, leads to an extremely limited fiscal contribution from agricultural trading and processing companies. According to data collected by KPMG, Mozambique Leaf Tobacco's income before taxes has been equivalent to its net profit at least since 2008, making it one of the few firms in the ranking of the largest companies in Mozambique that are reported not to pay corporate taxes (KPMG 2010, 2011).

There is no fiscal mechanism in place to redistribute the benefits of growth in tobacco agriculture or to secure revenues for the state. This turns tobacco into an enclave sector of sorts: despite creating thousands of seasonal jobs and driving accumulation by the trading company and by a group of farmers, the fiscal regime and the sectoral policy allow for few opportunities for socialisation and redistribution, while also precluding the existence of mechanisms for intersectoral transfers and productive upgrading.

Public-service provision in tobacco-growing regions has developed no fiscal linkages to the tobacco sector. Reported improvements to household well-being are therefore solely the result of private sourcing. Public services, health and education lag behind comparatively, so that it is not uncommon to find that, in tobacco-growing areas with a concentration of highly profitable farms, there is no access to health, schools, or water and sanitation services. Some state functions are picked up by the trading companies in the form of corporate social responsibility interventions (water boreholes, school buildings and reforestation).

The role of the state

The tenuous linkages of the tobacco sector to the broader economy are the result of the reticence of the Mozambican state to intervene purposefully and strategically in monitoring and readapting the concession model. Only by doing this could the state ensure that the model benefits the growers and contributes to the broader process of modernisation of the relations of production. The shortcomings of policy design in the case of tobacco reveal the difficulties in balancing strategies

17 Bearing in mind that the investment reported for setting up the tobacco-processing factory was US\$ 50–55 million, this would amount to a US\$ 5 million discount.

18 From informal inquiries addressed to officers of the Agricultural Development Fund, the author concluded that payments relative to tobacco transferred by provincial agricultural directorates are irregular and insubstantial.

tailored to different types of producers in different kinds of market relations with macro-strategies for agricultural development.

The Mozambican state has limited its own role as an arbiter on demand between farmers and corporations, but not as the manager of a state-created rent. Despite the volume of financial, human and natural resources invested in the production of tobacco, the positive effects of higher incomes are socially and geographically concentrated, are contingent on exploitative practices, and have limited multiplying capacity and are probably unsustainable in the long run. It would be disingenuous to expect that, without binding mechanisms, rents from tobacco would spontaneously contribute to deepening and broadening Mozambique's agricultural capacity.

As the binding regulatory framework guiding the functioning of the sector, the Tobacco Regulation provides legal grounds for the creation of geographical monopsony concessions, which are paramount for state-created rents. The Tobacco Regulation spells out a number of technical dispositions for the production and commercialisation of tobacco, but at no point does it formulate the conditions under which the state-created rents are granted or, ultimately, the rationale for providing the world's largest leaf tobacco buyer with a competition-free arena in which to operate, neither does it bind operators to contribute in return for the leeway to freely impose prices at which they want to buy tobacco (a prerogative they do not enjoy in neighbouring countries).¹⁹ At present, tobacco concessions allow international capital to capture a monopoly rent in the use of prime agricultural land and cheap labour, no doubt productively, but without any strategic long-term commitment to develop Mozambique's productive capacity.

The Tobacco Regulation was formulated to attract operators to Mozambique, which it did, but it has been less adept at defending the interests of local producers. For instance, while stringent measures are devised to hinder side-selling by producers, there is no similar obligation for concessionaries to actually buy the leaf produced. The company has an incentive to buy the quantities that secure credit recovery and can exercise its own discretion in purchases beyond that point. The Tobacco Regulation forbids sales to third parties and does not provide producers with mechanisms for clearing tobacco not bought by the concessionary.

The system of concessions was created in the case of tobacco before production took off, and, as much as it can be credited with its development, it also needs to be adjusted to the current characteristics of the sector. Similarly, the Tobacco Regulation was drafted at a time in which several leaf-buying companies operated in the country and it has not been updated to account for the present situation

19 Competitive systems, however, do not preclude collusion among firms. Accusations of cartelisation among tobacco buyers are frequent in Malawi – Prowse 2013.

in which there is only a major operator left. In a World Bank review of contract farming in tobacco, it was suggested that the government of Mozambique 'does not at present have a strong centre of expertise for regulating the tobacco industry (...) and that it is presently ill-placed to challenge multinational companies on pricing and taxation issues' (WB 2005).

In the light of changes in the functioning of the tobacco sector in Mozambique, and taking into consideration its accelerated growth over the past decade, it is necessary to rethink ways in which to articulate the sector to the domestic economy and to the provision of public goods in tobacco-growing areas. A revision of regulatory mechanisms could explore what space there is for brokering a better deal for producers and for the economy as a whole, including ensuring that resources are mobilised to fund productive investment, reconversion and contingency production plans.

An articulated policy for tobacco would need to respond to strategic development objectives in order to improve on the current institutional arrangement, which is vague about its goal yet expects to spontaneously yield developmental dividends. Furthermore, the assessment of the performance of concessions should be based on solid information gathered, processed and used by the state institutions. At present, state institutions are passive consumers of information disclosed by concessionaries.

Tobacco farmers should be supported in the development of representative organisations capable of independently defending their interests. No such organisation exists at present, reinforcing the disproportionately weak position of individual farmers vis-à-vis the tobacco trader.

Conclusions

This paper has presented the existing evidence of the positive impact of the concessionary regime in tobacco agriculture at the micro-level on the productivity of agriculture, the intensity in the use of purchased inputs, and the income levels of a share of the tobacco-growing households. However, it has also raised questions about the foundations of this agricultural development with respect to competitiveness gained on the basis of an exploited and self-exploited labour force. Unsurprisingly, tobacco has prospered in borderland districts of Tete and Niassa with a long history as colonial labour reserves and with access to migrant seasonal labour, while it has been abandoned in regions of Manica where the proximity to larger markets, as well as the existence of trading networks and credit facilities for other crops, improves the bargaining position of farmers.

The broader contribution of the tobacco sector to the sustained transformation of Mozambican agriculture is limited by a fiscal regime that benefits tobacco traders with an array of exemptions and grants them power to set the conditions of production and the prices for producers unilaterally. Since the creation of the concessions and the promulgation of the Tobacco Regulation of 2001, the trend in Mozambique has been towards the concentration of trading activities around a single operator. Opportunities have been missed to promote the linkages of this dynamic sector with the rest of the economy; to mobilise their potential to contribute to broadening and diversifying the productive structure; and to identify sources of revenue to fund the provision of public goods; and for the state to exercise its redistributive function.

One implication of the Mozambican concessionary system is that regulation protects the largest global tobacco trader from the rigour of market competition with no compensatory mechanism, such as the active intervention of the state in the regulation of prices. Combined, these two elements preclude the functioning of mechanisms that could otherwise assist farmers in pressing for higher prices for their production. Furthermore, the expansion of contract farming allows traders to source tobacco predominantly from a group of poorly coordinated small farmers, in contrast with neighbouring countries in which the estate sector has political leverage and some capacity to resist pressures from the trading companies and where there is a larger pool of trading companies.

In the absence of alternative private or public mechanisms for agricultural finance and inputs provision, contract farming schemes became necessary for cash-crop agriculture in Mozambique. However, the model led to agricultural sectors that are only price-competitive on the basis of farm-wage levels that are significantly lower than the minimum wages in the formal sector. The outsourcing of production results in multinational companies indirectly capturing gains from unregulated informal labour markets.

The comparative disempowerment of Mozambican tobacco farmers coupled with the limited contribution of the tobacco sector to state revenue have translated into tobacco becoming another site of the extractive economy in which valuable resources such as land, water and labour are incorporated in production, at the instance of capital, for the production of export commodities, but with serious limitations to contributing to the structural transformation on the productive structure.

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WOMEN PROCESSING CASHEW NUT: REFLECTIONS ON WORK, INVESTMENT AND GENDER IN THE PROVINCE OF CABO DELGADO

Sara Stevano

Introduction

The rapid economic growth Mozambique is experiencing is primarily driven by natural resources. For these high growth rates to have positive effects on poverty alleviation in the long run, Mozambique needs to diversify its productive and commercial capacity. However, the poverty reduction agenda remains engrained within the small-scale rhetoric, informed by a dualistic and misleading vision of Mozambican agrarian societies that sees subsistence/smallholder farmers as opposed to commercial enterprises (O’Laughlin 1996). Strategies for rural development problematically fail to address the complexity of agrarian societies in Mozambique as well as the linkages between influential new actors, such as agribusinesses, and small-scale agricultural production.

After its collapse in the late 1990s, the cashew sector is on a recovery path, with a new generation of processing plants emerging, especially in the north of the country. The revival of the cashew-processing activity is interesting in the context of rural industrialisation and development, as it can create employment in rural areas and generate intersectoral production linkages.

This paper looks at the revival, if limited and scattered, of the cashew-processing activity in the northernmost province of Cabo Delgado. The paper is based on micro-level evidence, collected through qualitative interviews with

cashew workers and other stakeholders who are part of the cashew-processing activity, which is currently concentrated at two sites: the Korosho Factory in the district of Chiure (south of the province) and three associations of women in the district of Nangade (north of the province).

The intention of this paper is to use this case study as a lens through which to look at issues of labour, gender and investment and shed light on the complexity of agrarian societies, which is, in turn, linked to some micro-level constraints that stakeholders involved in the processing activity encounter in Cabo Delgado.

Section 2 of the paper sets the macroeconomic context, focusing on the current strategies for rural development and the role of the cashew-processing industry in processes of rural industrialisation. However, it is beyond the scope of this paper to engage with macro-debates on the viability of the cashew-processing industry in Mozambique as a whole. The main body of the paper is developed in Section 3, which presents some characteristics of the processing activity at the two sites studied and then focuses on four issues: seasonality-constrained production, gendered division of labour, differentiation and use of cash incomes, and private investment and infrastructure. Finally, Section 4 concludes the paper.

Setting the macro-context: Any strategy for rural development?

With sustained GDP (gross domestic product) growth rates over the last two decades – constantly well above 6% per annum between 2003 and 2012 (World Bank national accounts data) – and recently discovered natural resources (especially coal, gas and oil), Mozambique is attracting private investors' interests worldwide. That high growth rates and inflowing investment have not been proportionally translating into poverty reduction and improvements in other human-development indicators such as chronic malnutrition, access to safe water, and education, is documented by data (INE 2009) and studies (Castel-Branco 2010; Hanlon & Cunguara 2010 and Cunguara & Hanlon 2012). Yet, the disjuncture between rapid economic growth, measured in terms of GDP, and poverty reduction comes as no surprise if the trickle-down effect is not taken for granted. Additionally, it has been pointed out that the sources of growth are narrow: primarily services and mega-projects in respect of natural resources, industry and agriculture, which have also been geographically concentrated around Maputo or in those places where natural resources are found (Castel-Branco 2004). Owing to this narrow basis, the dynamics of growth and investment have constrained the Mozambican economy to unstable and unsustainable patterns

of economic growth (Ibid). It would then be interesting to assess Mozambique's potential to translate high rates of economic growth into successful diversification of the economy.

According to Krause and Kaufmann (2011), the sectors that have the potential to grow are those around natural resources and primary commodities production. However, there does not seem to be a coherent strategy for industrial development that would allow retaining bigger proportions of value added and, crucially, creating employment. The long-standing poverty reduction goal that the government is set to achieve seems to rest largely within the small-scale rhetoric, with its problematic contradictions. Despite promoting the commercialisation of smallholder agriculture (PARP 2011–2014), the crucial linkages between small-scale agricultural production and larger-scale actors, including processors and multinationals involved in agribusiness, are not even mentioned in the latest poverty reduction strategy paper (Woodhouse 2012). This seems to be in line with some of the inconsistencies contained in the World Development Report 2008 (WDR08) and highlighted by different scholars (Amanor 2009; McMichael 2009; Woodhouse 2009). For instance, Amanor (2009) points out that the report appears to be a pro-smallholders agenda. However, it does promote large agribusiness, if less explicitly. The problem is that the linkages between the two are not fully developed, thus leaving one with the idea that small-scale farmers will benefit from agribusiness. Also, Woodhouse (2009) laments that no attention is paid to the relations between the agricultural and industrial sector, whose development is crucial for structural change and sustained economic development.

If we consider Mozambique's poverty reduction strategy as an application of the pro-smallholder and pro-agribusiness agenda in Mozambique, it can be argued that the linkages between commercial smallholder agriculture and the broader development strategy, which sees foreign investors as key actors, have been seriously overlooked. This finds its conceptual grounds in a long-lasting but misleading vision of agrarian societies in Mozambique. Since independence, Frelimo's agrarian policy was informed by a dualistic conception of Mozambican agrarian societies: subsistence farmers – who then became smallholders (Wuyts 2001) – as opposed to commercial enterprises (O'Laughlin 1996). The failure to recognise the heterogeneity of agrarian societies, which includes understanding the non-linear processes of diversification of rural livelihoods and class stratification, as well as the interactions of farm and off-farm wage work driven by an enduring process of commoditisation of the agrarian economy (Ibid), has shaped development discourse and practice in Mozambique to these days. In particular, the erroneous belief that the vast majority of Mozambique's rural populations is made up of subsistence farmers has given the way to linear paths for poverty

reduction, along which subsistence/smallholder farmers need to be transformed into more productive and semi-commercial ones.

In sum, the national strategy for agricultural development seems to be flawed in two major aspects: it is based on a simplistic and misleading vision of agrarian societies in Mozambique and, consequently, it fails to address the linkages between small-scale agricultural production and agribusiness. Understanding differentiation, labour relations, and relations between labour and capital is the basis upon which industrial policy should be designed, with adequate attention paid to the potential for rural industrialisation. In this respect, particular types of agro-industry can be successful for employment creation and diversification of the productive and commercial basis in rural areas, through backward and forward production linkages (Castel-Branco 2002).

The partial recovery of the cashew sector

After becoming ingloriously famous due to a collapse in production and processing, the Mozambican cashew sector is gaining momentum again. The most convincing voices in the debate on the determinants of the failure of the cashew nut sector (especially its processing industry) have pointed to the detrimental effect of liberalisation and privatisation policies – specifically the hasty reduction of export tax – forced by the World Bank, but it is beyond the scope of this paper to rehearse and engage with this debate (Cramer 1999; Pereira Leite 1999; Hanlon 2000; McMillan, Rodrik & Welch 2002; Aksoy & Yagci 2012). Yet the sector appears to be on the path to partial recovery. Production more than doubled between 2001 and 2008 – from 16 000 to 49 000 tons (Aksoy & Yagci 2012) – and a new generation of processing factories is consolidating in the north of the country, with about 25 functioning processing plants nationwide (ACI 2010).

In their study commissioned by the World Bank, Aksoy and Yagci (2012) claim that the complete wipeout of the capital-intensive processors was needed for the emergence of the new generation of labour-intensive and more efficient factories. This seems to be a partial account: whether the new factories are more efficient than the previous ones is to be demonstrated. What is more clear is that the gradual revival of the sector was made possible by the interaction and collaboration of different actors: the government, donors, the private sector and banks (Boys 2012), in which the importance of donors support and improved

access to credit¹ have been highlighted by many (Simonetti et al. 2007; Paul 2008; ACI 2010). In addition, local processors are protected by an export tax – maintained at 18% since 1999 (Aksoy & Yagci 2012). The tax revenue is managed by the semi-governmental organisation, Incaju, whose role is to promote cashew production and commercialisation through provision of extension services at the district level (ACI 2010).

The new factories are located near the cashew-producing areas – in fact, the majority of the new processors are found in the province of Nampula, which produces 40% of cashew nationally (Ibid). These small-scale processors need to be integrated into well-functioning supplier–buyer networks. In terms of supplies, geographical proximity to producers ensures lower transport costs and, possibly, geographical spheres of interest for raw material supply. With regard to buyers, both locally – despite the limited market – and internationally, the small-scale processors need to be able to successfully market their product by maintaining production and transport costs at a low level to be competitive and by appropriately branding their product. For instance, the majority of factories in Nampula are organised in the association *Agro Industriais Associados (AIA)*, through which they jointly export their product to one buyer in Europe.²

The revival of the cashew-processing activity is interesting in the context of rural industrialisation and development. Firstly, it can create employment in rural areas for both women and men. Secondly, it can work as an incentive to increase production of cashew nuts. Thirdly, it benefits from, but at the same time can contribute to, wider economic development of particular areas – for example infrastructure to keep transport and production costs lower. However, the success of the processing activity in functioning and delivering benefits needs to be examined at the micro-level. What are the constraints encountered by workers and other stakeholders? How does the cashew-processing activity interact with processes of livelihood diversification and rural differentiation? These are some of the questions that we try to address by looking at some aspects of the revived processing activity in the northernmost province of Cabo Delgado. Considering that women make up the majority of the labour force engaged in cashew processing, the aforementioned questions will be looked at from a gender perspective.

1 The most significant non-governmental organisation (NGO) involved in the rebirth of the cashew nut processing activity is the American NGO, Technoserve, which has been offering financial and technical support to private entrepreneurs since 1998; ACI 2010. Technoserve can offer financial support thanks to its partnership with GAPI, a non-bank financial institution specialising in lending in the agricultural sector – Simonetti et al. 2007. However, GAPI is too small to raise the money needed to finance working capital. This issue was overcome through the participation of USAID in partnership with a Mozambican bank – Ibid.

2 The sole buyer is the Dutch broker, Global Trading & Agency BV – ACI 2010.

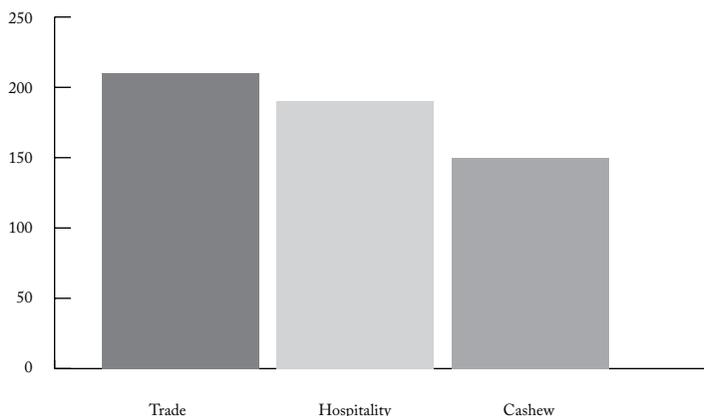
Processing cashew in Cabo Delgado: Korosho Factory and women's associations

Three main reasons can be mentioned for looking at the cashew-processing activity in Cabo Delgado. Firstly, cashew production, commercialisation and processing are being promoted in the province (mainly by Incaju in partnership with private actors, donors and banks) and involve an increasing number of stakeholders locally, such as producers of different scale, traders and processors. Incaju reports (See the provincial reports for 2011 and 2012) that informal processing activity is on the rise, possibly indicating that the local market for processed cashew is marginally expanding, if still very limited. Secondly, the new processing plants are mostly concentrated in the province of Nampula and, given production capacity and proximity to the Nacala Corridor,³ there may be scope for significant developments in processing activity in the province of Cabo Delgado. Thirdly, the cashew-processing industry seems to be one of the very few (rural) employment opportunities, from the point of view of waged employment or otherwise, available to women (see Figure 1 below) – especially those with low levels of education.

At the national level, most cashew is currently produced and processed in the province of Nampula (approximately 40% of national raw cashew production), followed by Inhambane (21%) and Cabo Delgado (12%). It is important to mention that the only existing data on volumes of production, export and processing of cashew is collected by Incaju, which recognises some reliability issues: the pervasiveness of informal trade tends to produce underreporting in quantities of cashew traded and exported, there are flaws in monitoring and inspection procedures, and cashew retained for own consumption remains excluded from statistics (ACI 2010; Incaju 2011).

3 The Nacala Corridor connects Malawi to the port of Nacala, in Nampula province, which is the main channel for exports in northern Mozambique. The Nacala Corridor is one of three 'development corridors' – trade channels – that cross Mozambique – Krause & Kaufmann 2011.

Figure 1: Women employed by sector: Trade, Hospitality and Cashew



Source: Charts made by the author using data provided by Governo da Provincia de Cabo Delgado, Balanço PES 2011

According to Incaju (2012), of the cashew that was commercialised last year in Cabo Delgado, 3 119 tons – the greatest part – were exported to Tanzania, followed by 2 317 tons exported through the port of Nacala, 1 123 tons were bought by the Korosho factory, 1 038 tons were sold to the factories in Nampula, and 140 tons were informally processed in the province (see Table 1).

Table 1: Tons of cashew commercialised in the province of Cabo Delgado

7 736 tons	Cashew-nut commercialised in the province of Cabo Delgado 2011-12
3 119	Exported to Tanzania
2 317	Exported through the Nacala port
1 123	Bought by Korosho Factory
1 038	Bought by factories in Nampula province
140	Processed informally in Cabo Delgado

Source: Incaju 2012

In Cabo Delgado, the processing activity is currently concentrated at two sites: the Korosho ('Korosho' significa 'castanha de caju' em Kiswahili, Shimaconde e Macua) Factory in the district of Chiure (in the southern part of the province) and three associations of women in the district of Nangade, where most cashew is produced.

The new factories established in the 2000s differ from the previous ones and are labour-intensive: there is substantial reliance on manual techniques, while the use of machines is reduced to the minimum (Kanji et al. 2004; ACI 2010; Krause & Kaufmann 2011). Many of the processing plants are located in the so-called

cashew triangle (Paul 2008) in Nampula – the triangle extends between Monapo, Murrupula and Moma – due to proximity to areas of production and shipping, thereby minimising the high transport costs. Poor infrastructure has been identified as one of the most critical internal constraints that need to be overcome in order for the cashew sector to flourish (Cramer 1999). By the same token, the Korosho Factory was inaugurated in 2006 and, despite being located outside the cashew triangle, it is relatively close to the Nacala Corridor and, being the only functioning processing plant in Cabo Delgado, is one of the most important buyers of cashew nuts produced in the province. Interestingly, the Korosho Factory is owned by the Indian multinational ETG World⁴ that operates in 28 countries (many of which are African countries) in farming, commercialisation, and the processing of several agricultural commodities including cashew, which it processes in Tanzania and Mozambique. Then the produce is exported to the United States of America (USA), India and Europe for second processing. A number of studies (Harilal et al. 2006; ACI 2010) have shown that most of the value created accrues to second processing and retailing phases – it has been estimated that only 18% of the value added is captured by Mozambique (ACI 2010). The factory currently employs between 300 and 350 workers, with roughly one-third being men and two-thirds being women.

In the district of Nangade, there are currently three associations. Two groups, Umulikungu and Luisa Diogo, are based in Litingina (a village very close to the border with Tanzania), and the third one, Unidade, is in 'Ntamba de Makonde. Overall, between 50 and 60 women are members of these associations. Umulikungu was the first to be created (in 2001) as a result of one woman who moved from Tanzania to Litingina and taught other women how to process cashew nuts – the northern districts of Cabo Delgado saw some returning migration after the end of the Civil War in 1992 and, even more so, with the implementation of the pension scheme for those who participated in the war for independence. Unlike the other two associations, Umulikungu has received support from Sociedade Commercial Messalo Lda, which is committed to securing a market for the processed nuts, including exporting the product via fair trade (Sociedade Commercial Messalo Lda 2003). The original project included three objectives: the legalisation of the association, the construction of a small manual processing unit (locally referred to as 'fabriqueta', literally 'small factory') and ongoing training. The project was only partially implemented: the produce ended up being marketed locally only and the association was never fully legalised. However, the support received by

4 De acordo com as informações contidas em seu website (<http://www.etgworld.com/>), ETG comercializou 63,645.5 toneladas de castanha de caju em 2011. As fábricas de processamento na Tanzânia e Moçambique exportam os seus produtos sob uma única marca, Korosho.

this group shows in the returns women achieved when compared with the women in the other two associations – this will be further discussed in Section 3.3. All three associations are currently selling their produce on local markets, mainly in the town of Pemba.

How is labour organised and divided?

The factory and associations use similar procedures to process cashew. Labour-intensive techniques prevail in both cases: machines are absent in the associations and equipment is limited to ovens and a few recently introduced nut-crackers in the Korosho Factory, where most of the cracking is still done manually. However, labour is organised differently. In the associations, one person follows the entire processing activity from beginning to end; in fact, women often work from their homes. In the factory, the processing activity is organised over three different phases: in the first one, men and women together crack the nuts and take out the kernels; the second one is for peeling, and the last one is for classification. These last two phases of work are carried out entirely by women. In both cases, though, there seems to be a male in control over the production process. In the factory, all floor supervisors but one are men and the first section, where women and men work together, seems to be the one where it is possible to receive a marginally higher salary. In the associations, women reported common reliance on husbands for input supply (i.e. raw materials for processing).

Who owns the means of production?

Undoubtedly, all the factory workers are waged workers. Interestingly, though, the women in the associations who could be expected to be self-employed are only in partial control of the means of production: input supply is ensured by either Sociedade Commercial Messalo Lda or male members of the women's families, thus indicating that the women are not the owners of the processing activity. They seem to lack ownership of capital both before and after the processing activity: capital needed to purchase raw cashew, and cash earnings obtained through sales of the processed cashew.

How much work for how much money?

In the associations, working hours are very flexible and, in addition, the processing activity often follows very sporadic patterns due to the lack of raw material. When raw cashew is available, the interviewed women said that one person can process

up to 6kg of raw cashew per day. The associations buy cashew at 30 MT/kg and sell it at 200 MT/Kg, but it is very difficult to work out the monthly cash earnings because the quantities processed vary greatly, depending on financial ability to purchase raw cashew. In the factory, workers start working at 6am and normally finish in the early afternoon, but there is no specific number of daily working hours, because workers are paid according to the quantity produced. On the basis of the information provided by the workers, monthly salaries may range between 500 meticaïs and 2 000 meticaïs (equivalent to US\$ 16–65, and less than half the current minimum salary) – see Table 2 for more detailed information.

Table 2: Estimated workers' wages in the Korosho Factory

Cracking	8.85 MT/kg	10–12kg per day per person	From 500 to 2 000 MT per month	Men and women
Peeling	9.50 MT/kg	3kg per day per person	From 500 to 1 000 MT per month	Women only
Classifying	1.35 MT/kg	65–70kg per day per person	1 500 MT per month on average	Women only

Source: Based on information provided by the workers

Now the discussion will evolve around four issues: seasonality-constrained production, gendered division of labour and roles, differentiation and use of cash incomes, and investment and infrastructure, which will be discussed in turn.

Seasonality and seasonal absenteeism

Seasonality and seasonal absenteeism are two interesting issues that emerged during field research. They are of a different nature but end up constraining production to seasonal patterns.

Seasonality and access to credit: Supply or demand problem?

In the associations' case, one of the main difficulties that the women are encountering is the lack of financial capacity to buy big quantities of raw material to ensure the continuity of the processing activity throughout the entire year. This means that, with no external support, they are normally able to buy quantities of input sufficient to process cashew for only a few months during the year, mostly at harvesting time. Loans were one attempt made to overcome this constraint. All the associations received a one-off loan from the local government but have had difficulties in paying back the loan. This suggests that the problem of access to credit, known as one constraint to production (Cramer 1999; Simonetti et al. 2007; Krause & Kaufmann 2011), is exacerbated by lack of organisational capacity,

unconsolidated commercial networks, limited domestic demand for processed cashew, and poor infrastructure. Simonetti et al. (2007: 143) rightly point out that scarce access to credit ‘does not only, nor perhaps mainly, concern its supply side, but also its demand side: namely what it takes to make small and medium size rural production productive and, hence, “bankable”’.

The phenomenon of ‘associativismo’ has a long history in Mozambique that dates back to Frelimo’s collective production in rural areas. The continuity of the ‘association model’ up to the present is possibly associated with expectations (often not fulfilled) to receive (financial) support from government or NGOs, at least in the province of Cabo Delgado. However, the effective capacity of associations to deliver social support or create productive capacity has already been questioned (O’Laughlin 2009). For the association model to be a realistic way to build productive capacity and not just a partially successful channel for individual accumulation, several constraints need to be overcome. For instance, the limited domestic demand for processed kernels casts some doubts on the sustainability of the association model, unless successful commercial links are established with foreign buyers, through appropriate marketing strategies, and the processing activity becomes regular. In this respect, one lesson may be learnt from the partnership between the American NGO Technoserve – a key player in providing technical support for processors in Nampula – and GAPI – a non-bank financial institution – which used a particular form of value chain lending now considered one of the determinants of the resurgence of the cashew-processing industry in Nampula. This form of lending is characterised by the ‘integration of the supply of credit with the active improvement of the borrowers’ ability to repay’ (e.g. provision of business services) and is aimed at developing networks of producers and traders along a value chain (Simonetti et al. 2007: 144).

Seasonal absenteeism: Choice among plenty or constrained by scarcity?

In the factory’s case, there is an issue of high levels of absenteeism, especially during the rainy season. This immediately emerged in the interviews with both workers and managers and similar problems related to high absenteeism are reported by Paul (2008) in his study for Technoserve of factories in Nampula. According to the factory manager, between December and February (the rainy season), the number of workers reduces from over 300 to 100/150. This happens because, during the rainy season, more labour is needed on the ‘machambas’ (plots of land), so the factory workers go to work less regularly or abandon their job for several weeks in order to perform agricultural work on their ‘machambas’. The branch manager of Korosho explained this phenomenon in cultural terms:

'Here people have a different working culture' (Korosho branch manager, personal communication, July 2012).

The very few works that mention the problem of absenteeism (Krause & Kaufmann 2011) critically fail to link it to the seasonal patterns of agricultural labour, and the only work that makes this link, namely that by Paul (2008), explains it in terms of sociocultural reaction to transitions from agrarian society to an industrial one, that is, 'from farm to factory':

'Here work choices are viewed as casual, transitory, and a complement, not a substitute, to agricultural labour.' (Paul 2008: 15)

These statements are fundamentally problematic and misleading in that they explain labour as a choice, instead of understanding it as the result of livelihood diversification, that is, the households' necessity to engage with multiple activities to reproduce themselves. There are two important facts to support such a claim.

Although the importance of labour markets in rural settings has often been neglected, it has been thoroughly documented that rural wage employment plays a crucial role in rural people's livelihoods, for both women and men (Cramer et al. 2008). All the interviewed workers reported that they used to do 'kibarua' (task-based wage employment, known in Portuguese as 'ganho-ganho') before working in the factory, thus indicating that the status of waged worker is not necessarily something new to them and, most likely, for many people living in rural Mozambique. In fact, some of them claimed: 'This is our kibarua now', referring to their work in the factory.

In addition, field research in different areas of the province of Cabo Delgado revealed that one of the most common ways to use cash incomes/earnings, when they reach a sufficient level, is to hire seasonal agricultural workers. All the interviewed factory workers as well as the women in the associations (especially those in Umulikungu) reported that they use part of their cash incomes to hire agricultural labourers, throughout the entire year in a few cases and during the rainy season in all others. This strongly suggests that seasonal absenteeism is more a consequence of low salaries (that do not suffice to hire agricultural labourers on a regular basis) than workers' individual choices to be farmers rather than wage workers at particular times of the year.

It can surely be argued that agriculture is given and indeed has a very high value (both commercially and for food consumption), but this does not coincide with agricultural work or individuals' choice to be farmers. This raises a more general question as to who the rural populations are. There is a discrepancy

between the language commonly used when someone says 'I am a farmer' and the economic activities actually performed in order to make a living. There is a strong need to be clear about the importance of a cash economy in rural people's lives: by now the commodification process is so deeply rooted that it reaches the most basic goods such as water. Rural populations need to engage in a diversified set of economic activities because none of them offers them full coverage for their monetary needs. In this context, the establishment of the cashew factory seems to deepen and shape processes of social differentiation and class formation, but does not create them from the onset.

Gendered division of labour and roles

Having highlighted the importance of rural labour markets and diversification of economic activities, it is of paramount importance not to overlook the tensions in allocation of labour between paid and unpaid work, especially in the case of female participation in paid labour.

According to Bryceson (1980), women's participation in the labour force or their engagement with cash-earning activities occurs through 'absconding' (escaping) from capitalist relations of human reproduction. In the case of the cashew-processing activity, both in the factory and in the association, women engage with paid work in the form of 'real subsumption to familial male control', as it is called by Bryceson (Ibid), meaning that women gain permission from their husbands or other male members of the family to work outside their home, or, I would add, women are told or encouraged by their male counterparts to go out and work to meet the familial economic needs. In other words, allocation of labour between productive and reproductive work changes due to economic compulsion, but often there is a lack of symmetry between women's economic gains in the productive sphere and their losses in reproductive responsibilities or, by the same token, in the ability to earn cash and the capacity to control it. For instance, most women in Umulikungo claimed that they normally hand over their cash earnings to their husbands in order to continue to gain their consent to work in the association. In the associations, it is evident that, while women are the sole members and workers, there is an overwhelming male control over the production process.

In Cabo Delgado and elsewhere, employment opportunities for women must be warmly welcomed and, together with more jobs, the policies to address the increased burden on women's responsibilities and multiple roles. For instance, the Korosho Factory has a crèche run by a worker paid by the factory where women can leave their young children during their working hours. Yet, the factory

does not provide paid maternity leave: pregnant women can just leave their job before/after giving birth for months and then return. The lack of job security is remarkable, though: contracts are so loose that workers with contracts and those without receive equal treatment, some workers lamented. In fact, the turnover is so high that some workers are admitted into the factory on a daily basis to replace those who are absent. In other words, flexibility in working patterns – ensured by very weak contracts (or the absence thereof) – may be seen as functional to women's and men's multiple responsibilities. but, at the same time, it is functional to the employer's incapacity or unwillingness to provide adequate salaries and job security and is exacerbated by a lack of social policies that protect workers' rights.

In sum, the cashew associations and Korosho Factory in Cabo Delgado illustrate two issues. Firstly, women's participation in paid work may not translate into their capacity to control their earnings and, secondly, women – and to a lesser extent men – have multiple responsibilities that shape their engagement with paid work. Therefore, a clear understanding of contradictions and tensions embedded in the otherwise rosy picture of women getting into paid work should set the basis for employment opportunities supported by decent levels of worker protection.

Investment and infrastructure

Based on the CPI data set⁵ and field research conducted in June 2012, there are two main sectors where private investment appears to be concentrated in the province of Cabo Delgado: agriculture/agro-industry and tourism. In comparison with other sectors such as aquaculture and fishing, and industry and other (as classified by the CPI), the number and entity of the projects in the area of agriculture and tourism stands out remarkably, with 27 functioning enterprises in the former and 21 in the latter. While the timber industry stands out remarkably in the agriculture and agro-industry sector, there are other types of private investment flowing into the sector, especially in the southern districts. Most of the functioning projects are concentrated in the town of Pemba, followed by Montepuez (the second-biggest town in Cabo Delgado) and Chiure, suggesting that private enterprises operate mainly in the south of the province.

The southern districts of Cabo Delgado enjoy better infrastructure (especially roads) relative to the northern districts and are closer and better connected to Nampula province and the Nacala Corridor. The Nacala Corridor is one of the three 'development corridors' (trade channels) that cross Mozambique connecting

5 'CPI' stands for Centro de Promoção de Investimento, which is the only institution that has official data sets on private investment commitments per province. It is important to underline that the CPI data is incomplete and outdated – in fact, the field research conducted on private investment was partly aimed at verifying the reliability of available data.

Malawi, Zimbabwe and South Africa to three ports in Mozambique (Krause & Kaufmann 2011). Proximity to major trade channels is crucial for export-oriented industry.

Chiure is agriculturally developed, relative to other districts in Cabo Delgado. It is crossed by the road that connects Pemba to Nampula and, in Chiure Sede, there are two petrol stations and a bank. One of the oldest agro-industrial enterprises of Cabo Delgado is based in Chiure: the Chiure Comercial e Agricola, a Portuguese, family-run firm that has specialised in production, commercialisation, and the processing of agricultural products (mainly maize, greens and beans) since 1948. Other investments in the agro-industrial sector have taken place in the district more recently and include bananas and sugar cane for export. It would appear that the proximity to the Nacala Corridor and the presence of relatively decent infrastructure play a key role in attracting investment to Chiure and, more generally, to the southern districts of Cabo Delgado. This suggests that strategies for rural development should appropriately address the linkages between agricultural and industrial sectors as well as the channels through which rural populations can benefit from agro-industrial developments.

In the district of Nangade, the scenario is completely different. Nangade is one of the most remote districts of the province, especially owing to its distance from the most significant urban centres (Pemba, Nampula) and the bad conditions of the roads. Beyond very dynamic networks of 'informal' trade – on account of its proximity to Tanzania – there are no significant investment projects. Although Nangade is the main cashew-producing area in the province, there are no functioning processing plants at the moment. Incaju is supporting the construction of a small-scale processing plant in the district, but it would seem that progress has been very slow. Lack of infrastructure and the distance from a shipping site (Nacala) seem to hinder increased investment in processing for export. At the same time, the association model is not free of problems, as has been discussed: scarce organisational capacity, weak commercial networks, overcoming financial difficulties, seasonality, limited domestic demand for processed kernels, and reliance on external support are some of the problems, which implies that, if the associations do not succeed in becoming autonomous, they will not be a suitable mode of production beyond a few years.

These observations seem to suggest that there is a potential for the expansion of the cashew-processing activity in the province of Cabo Delgado, but this would depend critically on continuing collaboration among different actors (national and local government, Incaju, private investors, donors and banks) to address the shortcomings (e.g. seasonality and access to credit) and therefore ensure the sustainability of the activity in the long term. In addition, the collaboration of

these players should encourage the formation of virtuous cycles of investment and infrastructure, with one feeding into the other.

Conclusions

Looking in some detail at the cashew-processing activity in the province of Cabo Delgado shows some aspects of the complexity of agrarian societies. One overarching finding is that rural households strive to ensure that they have multiple sources of income, where possible, for reproduction. So the (wage) employment opportunities created by the cashew-processing sector, because they do not seem to guarantee sufficiently high wages/earnings, flow into the complex networks of labour. This manifests itself, for instance, in the phenomenon of seasonal absenteeism in the Korosho Factory and in sporadic patterns of production in the associations.

This case study shows two ways of looking at the complexity of labour dynamics. Firstly, self-/wage employment and formal/informal economies feed into each other, thus raising some concerns about the simplistic and dichotomous use of these categories. Secondly, processes of livelihood diversification and rural differentiation interact at different levels, thus creating non-linear paths of development. This picture is clearly at odds with the portrayal of agrarian societies in Mozambique as being made up of smallholder farmers. Acknowledging and understanding the interaction of multiple forms of on-farm and off-farm work is crucial in order to design sound strategies for rural development.

In addition, the majority of cashew workers are female, whose time tends to be subject to more demands and responsibilities, relative to men. In fact, women retain their responsibilities and duties in the reproductive sphere even when they participate in paid work, which forces women to be more flexible in moving from paid to unpaid work when necessary. Also, their engagement with paid work may not translate into their capacity to maintain their control over their earnings.

By no means are these reflections intended to suggest that these employment opportunities are not needed or desirable. On the contrary, they are needed and are warmly welcomed. Yet, some measures may be taken to minimise the negative effects on production – for example the provision of credit together with services to increase the borrowers' ability to repay and overcome seasonal constraints – and to address women's and men's multiple responsibilities and roles – for instance social policies to protect worker rights.

It would appear that there is potential for the cashew-processing industry to expand in the province of Cabo Delgado on account of its proximity to the Nacala

Corridor and Incaju's promotion of cashew nut production. Yet, the continuing and successful collaboration of different key players – governments, both national and local, Incaju, private investors, donors and banks – is needed to ensure the sustainability of the activity in the long term. In this sense, the limited domestic demand for processed kernels and the excessive reliance on external support raises some doubts as to the viability of the association model relative to export-oriented industry. In addition, virtuous spirals of investment and infrastructure development would benefit the prosperity of the sector in different areas of the province.

In sum, for the re-emerging cashew-processing sector to play a key role in processes of rural industrialisation and development, it needs to be considered as part of a framework informed by accurate visions of rural societies and aimed at addressing key linkages between small-scale agricultural production, off-farm employment, and new key players in the agro-industrial sector.

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INFORMAL SAVINGS AND LOANS GROUPS: OPPORTUNITY FOR EXPANSION OF BUSINESS FOR THE PRIVATE SECTOR IN MOZAMBIQUE? ANALYSIS BASED ON A CASE STUDY OF INHAMBANE AND MANICA PROVINCES

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Introduction

One of the main brakes on the development of the private sector in Mozambique is access to finance. This situation is linked to two main problems. Firstly, the cost of credit is high and has proved resistant to attempts by the monetary authority to reduce it by using the various instruments of monetary policy (World Bank 2013; Massarongo 2013). Secondly, the level of coverage by formal financial services is limited. In the country, there are only 18 commercial banks, which define more than 90% of the entire financial system. Only 63 of Mozambique's 128 districts are covered by formal financial institutions (FIs) through bank branches, micro-banks, micro-credit institutions, credit cooperatives, ATM and/or POS (Amarcy & Massingue 2011; Massarongo 2013; *Noticias* 2013).

At the same time, it is estimated that, in Mozambique, more than 170 000 people are organised into informal savings and loans groups (SLGs)(Zaqueu

2010; Athmer 2013).¹ They find in these groups access to financial services that they have no possibility of enjoying in the formal financial sector.

The SLGs were introduced into Mozambique in the 1990s by CARE.² Currently, more than 30 governmental and non-governmental organisations are dedicated to promoting these groups in Mozambique.

The growing relevance of the SLGs, within various organisations, is linked to the fact that they are seen as an alternative form of access to financial services for the excluded social strata. This happens because, among other characteristics, the SLGs display a dynamic similar to that of FIs in terms of channelling savings, which are used to grant loans, on which interest is charged. These characteristics mean that the SLGs are generally considered as a vehicle for financial apprenticeship and as an option for financing consumption, business and job creation, and, hence, as a means of strengthening the power of the poorest, particularly women.

As regards the expansion of businesses, the SLGs are indicated as a source of finance for the expansion of small and medium-sized businesses (Athmer 2013; BoM 2013; MAE 2011; Plan, Barclays & Care 2013), that is, the members of SLGs with access to credit find an opportunity to develop their economic activities which, otherwise, they would have to abort for lack of funding. In addition, the SLGs are seen as an opportunity for the FIs to absorb financial resources which are informally transacted through these groups. The idea is that the link from the SLGs to the FIs, apart from conferring greater security on the groups, could allow the formal financial sector to obtain more resources to increase the supply of credit and/or make it more profitable and reduce the cost of credit.

The present paper analyses the SLGs as an option for expanding private-sector business. Specifically, it intends to contribute to the debate by looking at the SLGs as, on the one hand, an option for access to finance for developing small and medium businesses, and, on the other, as a source of resources for the formal financial sector. The main argument is that it is important to take care when discussing SLGs as an option for expanding private-sector business; that is, the socio-economic content of the groups, namely aspects behind their creation, their profile, the way they function, their social role, and the type of activities they

1 It is important to note that, as will be detailed below, the term 'GPC' is a general term for informal groups, often rural, with a range of characteristics in terms of number of members, statutes and management processes, which undertake savings and loans operations. In the literature, several other names have been used such as: ASCAs (Accumulating Saving and Credit Associations), VSLA or ACPE (Village Savings and Loans Associations or Community Savings and Loans Associations), RSC (Rotating Savings and Credit), among others. In this case, the informal financial groups such as Xitique are not included.

2 CARE is a humanitarian organisation dedicated to the fight against poverty. This organisation has delegations in 84 countries and has been in Mozambique for more than 20 years (for more details, see <http://www.care.org/careswork/index.asp>). Prior to Mozambique, CARE had already promoted the GPC methodology in West Africa.

finance, place conditions on the role these groups can play in the development of the private sector.

Apart from this introduction, the paper has a further four sections. The first conceptualises the SLGs in general, explaining their essence and origin. The second, in a general way, explains the operations of the SLGs and how their financial activity functions in terms of collecting savings, making them profitable and allocating the funds. The third section discusses critically to what extent the SLGs constitute an opportunity for the development of the private sector. Finally the conclusions are presented.

Savings and loans groups (SLGs): Concept and emergence

The analysis of the SLGs as an opportunity to expand business requires a previous systematisation about what these groups are and how they emerge. This is because, as argued in this paper, among others, the goals and context behind the creation of the SLGs influence their mode of operation, their efficiency and their independence, which, in turn, will dictate to what extent these groups are a viable alternative for the expansion of business through access to funding and linkages with the FIs.

In general, the SLGs are groups of people who come together – because of affinity and because they are neighbours, or because they are associated in socio-economic activities – to make savings, which, in turn, are used to grant loans within the group itself, with payment of a particular interest rate. These groups generally function in cycles of six to/or 12 months. During this cycle, the groups undertake their financial activity and, at the end of this period, the group distributes to its members the income raised and accumulated through its financial activity over the cycle. The number of members varies in accordance with the methodology used and the limits stipulated by the group itself. The groups are usually of a size which makes it possible to manage and maintain trust within the group.

The creation of these groups in Mozambique began in the 1990s with CARE. This organisation had already been promoting SLGs in West and East Africa. The replication of the SLGs resulted from satisfaction at the results achieved in other countries in terms of promoting financial services for the low-income population, particularly women (Helmore 2009).

Currently, there are more than 30 SLG operators in the country (Athmer 2013) – including governmental and non-governmental organisations and independent promoters – which promote SLGs with different methodologies and goals.³

How an SLG operates is influenced by the nature of the organisation which set it up. Thus the characteristics and operation of the SLGs vary in accordance with the methodology and objectives of each operator/promoter. But, in general, there are two main methodologies which guide the operations of the SLGs in Mozambique, namely: Village Savings and Loans (VSL) and Rotating Savings and Credit (RSCRSC). These methodologies are distinguished by the number of members of the groups, how often they meet, and the minimum and maximum limits on the value of the savings. But they resemble one another with regard to the main activity of the group: mobilisation of savings from the members and use of these savings to grant loans on which interest is charged, thus generating income which is redistributed among the members of the group at the end of each cycle.

Table 1: Operators and their objectives in setting up SLGs

Organisation/GPC operator	Objective in setting up SLGs
CARE	To guarantee access to informal micro-finance services and improve the financial stability of the poorest households, which are excluded from the formal financial system, with an emphasis on households headed by women
Kukula	To make access to financial services possible for the population deprived of these services in order to reduce poverty
ALFALITE	To reduce absenteeism in adult literacy classes through savings and loans activity, thus making this activity complementary to literacy
Child Fund	To support the development of sustainable programmes for the lives of children as a means of allowing their parents to increase their income and thus support the various needs of the children, such as nutrition, health, school attendance and clothing, among others
ADEM	To disseminate instruments which contribute to improving the competitiveness of the business sector
GAPI	To provide financial literacy and develop business plans with the purpose of linking the groups to the formal financial system
IDPPE	To provide financial support for small-scale fishermen and all stakeholders in the fishing chain, preparing them so that, in future, they will be able to access more complex financing mechanisms and guarantee that the people participate in meetings of the community fisheries councils
Kubatsirana	To generate income which can support the lives of beneficiaries and mitigate the impact of HIV/AIDS in terms of its programmes to support vulnerable people
Magariro	To help the vulnerable population to improve their living conditions through capacity building in the development of economic activities and management of their resources and incomes

Source: Organised by the authors, based on interviews held with the operators between August and November 2013

Some of the organisations which promote SLGs, such as CARE and Kukula, have the creation of these groups as the main activity among the range of their objectives.

3 Through the research carried out by the IESE from August to November 2013, the operators identified included Kukula, CARE, Alfalite, the Child Fund and the Institute for the Development of Small Scale Fisheries (IDPPE) in the case of Inhambane, and Magariro, Kubatsirana, the Child Fund, ALFALITE, GAPI, SARL, Manica Development Agency (ADEM) and the Kwaedza Simukai Manica Association (AKSM) in the case of Manica province

However, by and large, the promoters of the SLGs do this as a complementary activity to achieve their main goals. As Table 1 shows, organisations such as Kubastirana have as their main objective support for vulnerable people, and they use the creation of SLGs as a basis for improving the incomes of these people. ALFALITE takes adult literacy as its main objective. To attract and/or encourage the presence of students in the literacy centres, it promotes SLGs, which are very attractive because of their financial gains.

The SLGs are generally accompanied by supervisors and/or promoters hired by the operators. For a certain period, such supervisors and/or promoters help the members master financial management and information techniques. At the end of a cycle, it is hoped that the groups will have attained maturity and will no longer need to depend on the systematic assistance of a supervisor/promoter. In cases where, after the end of the cycle, the groups still need to be accompanied, they generally pay the monitor or facilitator who assists them (per session requested by the group) on the basis of contributions from the group members.

An important aspect that can be observed is that many of the organisations promoting SLGs set up the groups with an emphasis on numerical targets predefined by their financing agencies. Consequently, there is a trend for a more quantitative focus on the part of the operators, with implications for the quality of the groups set up. Furthermore, the focus on quantitative and predefined targets for a particular period leads to a certain discontinuity, that is, it limits the focus on the need for reflection on the problems which may arise in the formation of these groups. Thus the organisations end up with weakened groups that are more likely to disappear in the short and medium term. With this, there is a risk of overestimating the real number of groups that exist and/or are fully functional and hence the usefulness of the SLGs as a means of acquiring finance.

How do the SLGs operate?

There is a notorious variability in the functioning of the SLGs (see Table 3). As argued by Bouman (1995), each SLG has its own specificities in terms of rules to accommodate different environments, purposes or emergencies.

However, in general, the operational cycles of the SLGs vary between six and 12 months. During the cycle, the members of the groups meet to carry out their savings and loans activities. Some groups determine arbitrarily the minimum and maximum values of savings or stipulate minimums in accordance with the economic dynamic of the areas where the groups are located and based on the financial capacity of the members.

Despite the variability, the loans are short-term (generally one to three months) and are granted only to members of the group, with an interest rate varying between 5% and 30%, depending on the group's decision. According to the norms of operation of the groups, if the loans are repaid outside of the stipulated time limits, the debtor is punished with the payment of a fine previously agreed on by the group.

The redistribution of the savings, interest and profits resulting from the activity is generally done in accordance with the methodology followed by the promoter, which might be in proportion to the savings of each member, or equally. Figure 1 shows two formulas [see lines (a) and (b)] used by the different groups interviewed to distribute the earnings from the groups' financial activity at the end of the cycle. From the field research, it was found that the formula of distribution proportional to savings [see line (a)] is the one most used in the various groups visited.⁴ Use of these formulas has different implications. On the one hand, the formula of proportional distribution implies that the members with the largest savings are those who will benefit from a higher proportion of the profits, while those who save less will receive a lower proportion. On the other hand, in the formula of equal distribution, the interest is distributed equally among the members even though a particular member may not have generated interest for the group. The two methods of calculating the income obtained cause differences of opinion among the group about whether it is obligatory to take out a loan – that is, for some members, only those who contracted loans should benefit from the profits generated by the SLG's financial activity, based on the argument that it was they who contributed to the 'work' of the group. Others have an opposing view – for them, the profits should be distributed equally, regardless of whether the members contracted loans, considering that, among other factors, interest in contracting loans may be influenced by the possible type of application and/or the viability of the investment. Also, for these others, the fact that the members, by saving, are already participating in the financial activity of the SLG by contributing the amounts available to grant loans, is enough for them to be able to benefit from the profits, even if they are not contracting loans.

4 It should be mentioned that, in some groups, for example the weakest in terms of functioning and management of financial activity, it was found that they used other methodologies to calculate the sums resulting from the earnings from their activities. This was influenced by the poor mastery of the methodology and lack of follow-up by the promoters/facilitators. In addition, some independent groups have modified and adopted other formulas to deal with this question.

Table 2: Formulas for calculating the income obtained per member at the end of the cycle

<p><i>Formula of contribution proportional to the savings of each member</i></p> $VTR = \frac{VTC}{\underbrace{NTA_g}_{VA}} \times NTA_m$	<p><i>where</i></p> <p>VTR – Total amount received by the member at the end of the cycle</p> <p>VTC – Amount in cash at the end of the cycle (interest, savings and fines)</p> <p>NTAg – Total number of shares of the group</p> <p>NTAm – Total number of shares of the member</p>
<p><i>Formula of equal distribution</i></p> $VTR = VTP_m + \left(\frac{J+M}{N_m} \right)$	<p>VA – Value of a share at the end of the cycle</p> <p><i>where</i></p> <p>VTR – Amount received by the member at the end of the cycle</p> <p>VTP – Total value of the savings of the member</p> <p>J – Total interest of the group</p> <p>M – Total fines of the group</p> <p>Ng – Total number of members</p>

The groups have a system for recording information on financial transactions (amounts saved, loans granted, interest paid, social fund⁵, fines and other contributions), with such transactions being written in individual notebooks/files and/or in collective notebooks. A management committee⁶ elected by the group is in charge of managing and recording the group’s operations.

The money from the savings and what remains after loans (the interest charges, social fund and fines) are deposited in a box or safe with two or three keys. This system of keeping money is vulnerable and unsafe.

Apart from the money collected through savings, the groups have a social fund to which each member contributes a particular amount. This fund is used to deal with emergency situations that any member might be faced with. In addition, fines are levied for irregularities committed by members, such as delays in repaying loans, and for lack of discipline in meetings, among others.

From the field research in Inhambane and Manica, it was possible to note that there is no uniform pattern in the constitution, organisation, composition, functioning and dynamic of the SLGs. But it is possible to determine a certain pattern of agreement with the type of methodology used, that is, whether it is an RSC or VSL methodology.

5 The social fund is made up of equal contributions from the members of the SLG which are paid regularly (on the days when the group meets) and are not subject to interest. This fund is normally used to support members of the group in cases of unforeseen events (death, fire, accidents, illness, among others) during the cycle, although some groups use it for running costs (purchases of material – notebooks, pens, stamps, remuneration for committee members or the facilitator, among others) – Allen & Staële 2011.

6 In general, this committee consists of a chairperson, secretary, counter of the money, and guardian of the cash. This composition varies according to the methodology employed, as well as from group to group.

Table 3: Summary of the characteristics of the SLGs visited in Inhambane and Manica

Characteristics	Methodology	
	RSC	VSL
Occurrence	Predominant in Manica	Predominant in Inhambane
Frequency of meetings	Weekly, fortnightly and monthly. Most of the RSCs in Manica have monthly meetings. In the case of Inhambane they are weekly	Weekly, but some independent groups in Massinga and Inhassoro meet once a fortnight
Duration of the cycle	12 to 52 weeks (3 to 12 months)	36 weeks (9 months)
Management committee	Composed of three people: the chairperson, deputy chairperson and treasurer; most receive remuneration/ acknowledgement at the end of the cycle, resulting from the contributions of the members	Composed of five people: the chairperson, secretary, guardian of the cash box, and two treasurers, without remuneration
Interest rates	Vary between 10%–30%, but most apply 10%	Mostly 10%, but some groups use 5%
Records	Individual files (savings, loans, interest and social fund), but some groups keep records in a notebook	Individual booklets (savings, loans and interest) Notebook (absences, fines, balances and social fund). Everything stays in the box
Statutes	Drawn up by the groups themselves	There is a standard, which is adapted for each group. There is no room for many modifications
Loans	Requested at each meeting, repayable after a month, with tolerance of up to 3 months (with payment of interest) There is a limit on loans: (up to 1.5–3 times the savings per member)	Granted in the fourth week after the start of the cycle, with a frequency of every 4 weeks. Repayable after a month, with tolerance of up to 3 months (with payment of interest) There is a limit on loans: (up to 3 times the savings per member)
Social fund	Purpose: Running costs. Repayable to the group without interest	Purpose: Unforeseen events and emergencies (illness, deaths, floods, fires, etc.); not repayable
Individual savings	Most have a minimum (50 MT). There is no maximum, except for ALFALITE (minimum 50 MT – maximum 500 MT)	There is a minimum value given by the price of a share, which is determined by the group (lowest 20 MT). There is a maximum determined by the number of shares that can be bought. In this case, one can only buy up to 5 shares
Distribution	Proportion of savings: In some groups, members who did not take out a loan during the cycle take the sum equivalent to their savings, except for ALFALITE, where distribution is in accordance with the interest rate applied in the group on the members' savings, but the profits are distributed equally. In cases where the member only saved, such member takes one half of the interest rate used in the group; members in debt suffer cuts in their savings Formula: Value to receive at the end of the cycle = (Total value in cash/total number of shares of the group) × Total number of shares held by the member	Proportional to savings. In some groups, members who did not take out loans during the cycle take a sum equal to their savings Formula: Value to receive at the end of the cycle = (Total value in cash/total number of shares of the group) × Total number of shares held by the member
Number of members	10 to 60 members; when the members exceed this limit, the groups are divided into subgroups	10 to 25 members at most. The independent groups do not look at questions of minimums or maximums

Source: author elaborations based on the interviews made to the promoters and some member of different groups visited in Manica and Inhambane provinces

To what extent do the SLGs represent an opportunity for the expansion of private-sector businesses?

In terms of the various perspectives for analysing the SLGs, two options dominate the arguments that they (the SLGs) are an opportunity or a vehicle through which

the private sector can be encouraged. International organisations which promote SLGs see, on the one hand, the opportunity of access to liquidity for the financing of small businesses on the part of the population excluded from formal financial services for lack of meeting the requirements imposed (such as documentation, a banking track record, and exercising some formal economic activity, among others). This option is broadened to the fact that the SLGs are also seen as possible sources of funding for household consumption which may also stimulate demand and thus encourage businesses (Care 2009).

On the other hand, the SLGs, because of their more general characteristics, specifically channelling savings, allocating credit on which interest is charged, and with an information management system, are seen as: (i) a form of financial literacy for the members of the SLGs who, by and large, have never had contact with the financial system; and (ii) as a source of idle financial resources which can be channelled to the formal financial system through a linkage with FIs, which would contribute to expanding the base of resources to finance the economy.

The questions raised are: To what extent are these opportunities real for the private sector? What aspects should be analysed at the same time in considering such possibilities?

Access to liquidity

The field research and the literature on SLGs confirm that most of the members find in the groups access to financing which would be limited to them in a formal context. Many use the resources acquired in the groups to finance micro- and small businesses. In interviews with group members during the fieldwork undertaken by the IESE in Inhambane and Manica provinces, the commercial activities included the sale of basic goods, of cooked food, and of used clothes known as 'calamidades' (in stalls and/or shacks in the markets, at the roadside, or at home), the sale of agricultural products and seeds, the sale of animals, making clothes, the sale of firewood and charcoal, the extraction and sale of gold (specifically in Manica), among other investments. Most of the products resold are acquired in areas where commercial centres are concentrated, such as, for example: Maputo, Maxixe, Beira, Chimoio, Tete, and South Africa.

A change of activity, the creation of new sources of income or expansion of business/activities are other benefits that SLG members point to as a result of the opportunity to develop financial activity. For example, among the groups interviewed in Manica province, there were cases where a seller of vegetables became a reseller of frozen goods, of a livestock farmer whose herd rose from one to 20 head, a poultry operator who expanded from one henhouse to several, among

others. Cases were also observed of those who added a new activity to one already existing. This was the case of a seller of small amounts (measured by the cup or tin or small sachets) of oil, sugar and biscuits who developed an additional business for used clothes (or 'calamidades') and began to operate a farm (resorting to the use of additional labour).

Financing the consumption of durable goods is something else mentioned by SLG members. Specifically, the construction of improved houses, the acquisition of electrical appliances, furniture, and clothing, among others, were indicated as being funded through access to financing via SLGs.

Apart from the above, the strengthening of the socio-economic role of women is mentioned. Women have been seen as more vulnerable in socio-economic terms. Many of the operators, such as CARE, had, at the start of promoting the SLGs, and continue to have, a focus on women in a vulnerable socio-economic situation in order to make possible greater participation of women in the SLGs and in the community, and to strengthen their role so that they can acquire greater capacity to manage their resources and greater leadership capacity. Underlying the focus on inserting women into the SLGs is the idea that, on the one hand, their participation increases their respect and self-esteem in the community (Estarque 2013). On the other hand, they tend to invest the greater part of their income in their families, compared with the men who tend to invest less than half of what they earn (Plan, Barclays & Care 2013). The case of Ms AM, a member of the Dzunuca SLG, in the Chibo locality, Inhassoro district, Inhambane province, allows us to understand the role of SLGs in the empowerment of women:

I am 27 years old and I have 4 children When I joined the Xitique I had no money to do business and there was no money to buy exercise books for the children After I joined the Xitique I built a stall with some money I had at home and asked for money in the group to buy goods for my stall With this stall I sometimes manage to make some money which pays for school and exercise books for the children ... but here in Chibo we only have one vehicle which transports people and merchandise and only makes one return trip a day The car leaves here in the morning and returns in the afternoon. Sometimes this spoils my business and those of other people, even more so when the car breaks down Here there is no other form of transport and we buy all the merchandise in Inhassoro town, which is very far from here

The quotation above stresses a fundamental question. Although finance may be obtained, the advantages for the development of businesses tend to be overshadowed by other disadvantages in terms of socio-economic infrastructures.

The testimony by the member of the Dzunuca SLG stresses the lack of transport as an obstacle to business. But certainly other questions, such as electricity, roads, services to assist agricultural and non-agricultural activities, improved inputs, education, and health are fundamental in order to complement the role of credit in stimulating businesses.

Furthermore, one should note that most of the commercial activities undertaken are informal and small in scale, with a concentration of many people doing the same activities. Since the activities do not require more than the most basic of skills, and only diversify and create linkages with difficulty, the number of people who come in to do the same activities tends to grow very quickly. Consequently, it is very likely that the additional productive gains will decline in the medium to long term, and expansion and diversification of production may be limited. As argued by Bateman and Chang (2009), it is very probable that, in the medium to long term, the local economy will be saturated.

As regards evolving to new types of activities, there is no linkage between the activities undertaken and the new activities, that is, cases are few and far between when a particular member moves, for example, from selling raw material (e.g. producing and selling oranges) to selling products from the same material at a higher level of processing (e.g. orange juice). What happens is a sudden switch to a new type of activity such as, for example, from a small-scale seller of foodstuffs to one who has begun to sell second-hand clothes.

Another important aspect is that the loans acquired in the group are short-term and bear relatively high interest rates of between 10% and 30%. These conditions limit the use of resources for activities which generate rapid returns and which have only a superficial level of diversification and specialisation. For this reason, the members end up concentrating their activity on the resale of products.

Possibility of linkages with FIs

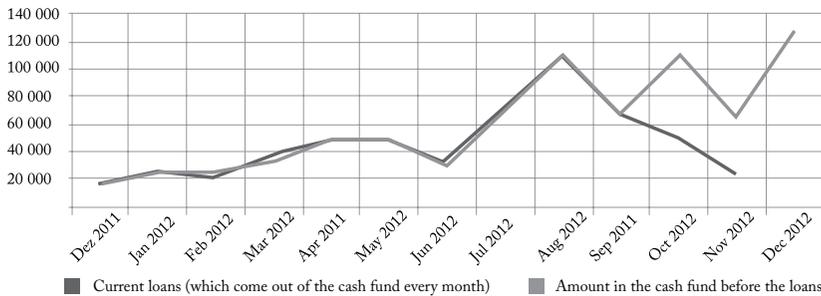
The SLGs are also viewed as a source of idle financial resources which could be allocated to the rest of the economy via FIs. The idea is that the FIs are considered to be skilled in allocating financial resources to the economy and making them profitable. In this context, various options are proposed which, although promising, need critical analysis. Specifically, five options stand out:

The first would be to have the FIs as the custodians of the savings of the groups. This possibility has been advanced based on the fact that many groups accumulate significant sums which are kept under vulnerable security conditions. For example, some groups accumulated about 100 000 meticaïs in cash, which is kept inside

boxes or safes by one of the members of the group. Thus the idea is put forward that these sums should be channelled to an FI.

However, it is to be noted that the sums accumulated by the SLGs are high in the last three months of the cycle. At this time, members repay the loans with interest, and the loans tend to be limited, since the moment is approaching for distributing the earnings of the group to the members. But, during the cycle, the savings are often equal to the loans contracted by the members, which means that the balance in cash is zero. This means that the groups would only use the FIs at the end of their cycles, and even then only for a short period prior to the distribution of the total sums. Additionally, the groups have different cycles and different beginning and closing dates, which would not make it easy for the FIs to forecast the dynamic of deposits and withdrawals from the FIs.

Figure 1: Cash flow of a group in Manica – example of how SLG cash flows work



Some accounts are indeed opened by the groups. However, the field research showed that, given the informal nature of the groups, their linkages with an FI is generally through joint accounts⁷ signed by three members of the group. Depending on the cash flow, the group resorts to the FI to deposit the sums from its activity. Thus, a large part of the financial activity of the groups continues to occur in an informal way. Consequently, the management of these accounts by the FIs ends up as an opportunity cost for them, since the deposits occur in a short period, and at the moment of distribution the groups withdraw the total amount that was deposited.

In this perspective, the question posed is: To what extent could the financial linkage be sufficiently attractive for the FIs, considering that the groups only use the bank accounts for a particular period in the cycle?

⁷ Some isolated cases were also identified of groups which used the account of one of the members to deposit excess liquidity.

Another important aspect concerns access to the FIs, which remains below the country's requirements, that is, financial services cover only about 49% of the districts in Mozambique (*Noticias* 2013). From the field research, it was found that, in the districts where financial services exist, they are located in the district capital, making access difficult for the population living in the localities of these districts. For example, it was found that, in Gondola district (Manica province), there is no bank branch (just an ATM) and Morrumbene (Inhambane province) only has one micro-bank, which does not take deposits, and an ATM. Furthermore, many groups were afraid that the money might be stolen on the journey to the bank; hence the fact that some groups are a long way from the FIs, could, to some extent, discourage them from resorting to these institutions

The second option would be to link some members of the groups to the FIs in order to obtain credit. This idea derives from thinking that the members, because they are members of the SLG, have sufficient financial literacy to link easily to the FIs. Furthermore, some SLG operators and other stakeholders (organisations which finance projects to set up SLGs) understand the question of linkage as a way to increase the fund of loans for members whose activities need sums which the groups are unable to finance. The linkage with micro-banks is seen as more accessible, in comparison with commercial banks, since micro-banks grant small loans. In the case of the linkage of the SLGs of ADEM with the Mozambique Opportunity Bank (BOM), it was found that the financial linkage is not automatic, for several reasons. Firstly, the functioning of an SLG is not necessarily the same as that of a micro-bank. Secondly, there is dependence on the maturity of the SLGs, that is, the management and organisational capacity, mastery of the financial activity (savings and loans), and how long the group has existed. Thirdly, it is sometimes necessary, in the initial phase, to establish a formal agreement between the operator and the FIs, as was the case with the agreement between ADEM and BOM.

The linkage of the groups to the FIs for granting credit has been restricted to the prior identification of members who are in a position to return the loans and have added needs for finance, and not to the group as a whole. The implication of this is that individuals with lower levels of business and transactions, who are the majority, will be automatically excluded from this type of linkage. Hence, it is likely that, in the same group, there will continue to exist some members with formal linkages and others who remain within the informality of the SLGs. While the financial system keeps to characteristics such as demands in terms of bank guarantees and documentation, these individuals find in the group more facilities and fewer conditions. In consequence, the SLGs have continued to operate as a

parallel mechanism which seeks to satisfy the financial needs not covered by the formal sector.

A further aspect which is important to consider in this option is the interest rate of the SLG members themselves to link with the SLGs. The interest paid is distributed among the members at the end of the cycle, but the interest on bank loans is paid to the bank itself, without return, and the question raised is whether the members are willing to forego these earnings. Evidence from the fieldwork shows that people have no interest in leaving the groups and linking only to the FIs because of the money the SLG members earn at the moment of distribution (as shown in Table 4).

Table 4: Example of gains earned in an SLG in Kukula, Massinga district, Inhambane province

Interest rate: 10%				
Duration of cycle: 9 months				
Initial value of share: 100MT				
Value of share at the end of the cycle: 140.39MT				
Method of calculation based on distribution proportional to the savings of each member				
No. of members	Total shares purchased by the end of the cycle	Total value saved by the end of the cycle (MT)	Total amount to be received (MT) at the end of the cycle	Total amount of profit received at the end of the cycle (MT)
1	146	14 600	20 496	5 896
2	94	9 400	13 196	3 796
3	85	8 500	11 933	3 433
4	170	17 000	23 866	6 866
5	149	14 900	20 918	6 018
6	167	16 700	23 445	6 745
7	132	13 200	18 531	5 331
8	106	10 600	14 881	4 281
9	61	6 100	8 563	2 463
10	144	14 400	20 216	5 816
11	60	6 000	8 423	2 423
12	60	6 000	8 423	2 423
13	59	5 900	8 283	2 383
14	159	15 900	22 322	6 422
15	121	12 100	16 987	4 887
16	155	15 500	21 760	6 260
17	160	16 000	22 462	6 462
18	70	7 000	9 827	2 827
19	71	7 100	9 967	2 867
20	100	10 000	14 039	4 039
Total	2 269	226 900	318 538	91 638

Source: Data collected during fieldwork in Massinga in September 2013

The use of the available electronic platforms is the third option. With the evolution of communication and management technologies, the mobile banking services available in Mozambique (M-Kesh and M-Pesa) have been suggested as another alternative for financial linkages. However, these services have platforms

which were initially designed for the urban centres and not necessarily for the SLGs. The mobile banking platforms are mainly aimed at paying for services, such as water and electricity, and transfers, among others, and they require a certain quality in the mobile phone network, which is clear in the urban centres, but not in the rural areas.

For example, the M-Kesh platform was adjusted to accommodate some needs of the SLGs, but this service still has limitations in meeting the needs of the groups. In the case of the SLGs of ADEM, with linkage to M-Kesh, in Gondola, the M-Kesh agent does not have enough liquidity for the group when it needs the money. Furthermore, this same agent refuses to make deposits of very large sums because he does not have the counterpart value in electronic currency. In this case, the alternative found by this group was to resort to the commercial banks in Chimoio city. Furthermore, these M-Kesh and M-Pesa platforms need a bank nearby, since, on their own, they have no safe way of keeping the money, if not in a bank. Finally, the members of the SLGs themselves are not yet familiar with the electronic money, which makes them reluctant to use the services. So the question posed is: To what extent can these platforms, under current conditions, really resolve some problems or needs of the SLGs?

In countries such as Kenya, where these platforms have operated successfully, one must bear in mind that the level of development of the information and communications technologies (ICTs) is very advanced.

Linking the groups to the public district development funds is another option raised. The idea is that, since the SLGs have shown that they can earn a return on their capital, they could benefit from the development funds which are channelled to the districts every year (known as the FDD). Specifically, the members of the SLGs can, on the one hand, use these funds as more accessible credit, and in larger amounts, to finance their activities, and, on the other, the level of repayment of these funds could improve, considering the financial discipline of the SLG members.

However, many groups support the idea of making loans obligatory for all members, since it is expected that the more loans that are contracted, the higher will be the returns of the groups. Thus the focus seems to be on allocating loans to the members, and not necessarily the members competing for access to finance. Some exceptions were found of members who wanted a higher level of credit. But, by and large, and even in these cases, the dominant discussions are about the need to obligate members to take out loans. Under these conditions, the question posed is: To what extent could the FDD be made profitable in the groups, since not everybody takes loans? The other question is the returns, that is, making the

group's own capital profitable implies gains for the members. If the FDD were used, the SLG members could lose this advantage.

Finally, the last option is the creation of an FI based on the groups and/or formalisation of the groups. The possibility is also being looked at of formalising the groups or setting up savings and loans operators (SLOs),⁸ starting from the groups themselves. But it must be considered that, apart from their social function, the SLGs are set up by affinity (which makes a higher degree of trust possible), have a small number of members (which allows greater control and coordination of operations and facilitates conflict management), and the loans contracted by the members and the interest paid revert to the members themselves at the end of the cycle. Thus the question raised is: What implications could the formalisation of the SLGs bring and to what extent will these continue to operate without losing their social component? There are different operating dynamics between SLGs and SLOs, which can influence the kind of linkage. In this case, because of the large number of members that the SLOs bring together, it would require a greater effort in managing information. Furthermore, by their nature, the SLOs would have to organise their accounts in order to be accountable to the Bank of Mozambique and to their shareholders. This could make it necessary to build the capacity of the groups to operate as SLOs.

Conclusion

There is practically consensus that the SLGs have been an advantageous alternative to dealing with the defective financial services in Mozambique, mainly in the rural areas. These groups concentrate considerable amounts of financial resources. They have financed micro- and small businesses and have contributed to raising the incomes of many economic agents. They are equipped with a financial information management system which strengthens their characteristics as an alternative financial vehicle.

But, when thinking of these groups as a source for stimulating businesses by making finance available for micro- and small businesses, or by linkages with the formal financial system, some important aspects should be considered:

- The SLGs and their members cannot be regarded as homogenous. The bodies that promote the SLGs have their own goals and their

⁸ 'SLOs' refers to organisations which have a nature permitted in law, admitting the existence of members or the character of an association between them, specifically the community-based organisations. The SLOs are microfinance operators subject to monitoring which provide savings and loans financial services. The SLOs allow only deposits from their members (who may not exceed 200) and their capital value ranges from 150 000 meticals (minimum) to 2 million MT (maximum) – BoM 2013.

motivations determine the type of SLG and its performance, as well as the mechanism for channelling finance. Likewise, the members of the groups are heterogeneous, that is, in addition to different socio-economic characteristics, they have asymmetrical levels of financial literacy. Hence it cannot be considered that either the group or its members are automatically prepared to join the FIs and/or manage to finance businesses.

- To some extent, the type of activities financed may limit the business dynamic. Specifically, the low level of skills, innovation and specialisation of the main activities financed leads to many of the members concentrating on the same activities. This leads to marginal and declining returns in the medium and long term, and thus saturates the local economy.
- Channelling the resources accumulated by these groups to the formal financial system in order to increase the availability of financial capital by opening accounts with the FIs, is limited. As shown throughout the text, the groups only use (when they use) bank accounts with the FIs at the end of the cycles, when they accumulate large sums, and for a short period, until the sums accumulated are distributed to the members of the group. So, even if 'formalised' through a bank account, the groups continue to undertake much of their activity informally. This means it is not enough to open bank accounts for the groups and assume that the resources are now in the formal financial system.

Structural questions relating to the economy itself, which end up limiting the development of businesses and the expansion of formal financial institutions, should be taken into account when discussing the role of the SLGs in the economy, that is, the effectiveness of these groups in financing businesses requires the existence of a favourable environment for their viability and growth in terms of the infrastructures necessary. Furthermore, if it is intended that the formal financial system capture these resources, then the problems which limit the system's expansion to particular areas need to be resolved.

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THE ROAD AHEAD: THE DEVELOPMENT AND PROSPECTS OF THE ROAD FREIGHT SECTOR IN MOZAMBIQUE – A CASE STUDY ON THE BEIRA CORRIDOR

Helena Perez-Niño

Introduction

The transport system provides a vantage point to observe and assess the transformation that Mozambique is currently undergoing. This paper presents a case study conducted using a sample of trucking companies operating in the Beira Corridor in central Mozambique in order: to establish the baseline of the literature and data available; to reflect on questions of access to transport services for different social groups; and to consider trade-offs in provisioning and investment when addressing different and contradictory objectives of transport development, and linkages and productive synergies that the transport system could help create between the flourishing extractive economy and the broader productive base in Mozambique.

The Mozambican economy is undergoing a phase of transition, a transition that is reflected in its different productive sectors. The transport sector is both the conveyor belt of the productive economy and a gauge that provides an indication of the magnitude and quality of the current transformation. As such it provides a vantage point to observe these changes in the system and to reflect on emerging challenges and opportunities. For all its shortcomings and periods of interruption, the Mozambican economy has been historically geared towards the provision of

transport services both to connect the vast national territory and as a gateway to a number of landlocked countries and regions.

The Mozambican transport system and the transport networks linked to the development corridors have received some attention from research-oriented organisations and academics. However, research on the transport sector has been concentrated on the development and functioning of the railways and physical road infrastructure. In comparative terms, with minor exceptions, the road freight operators have not yet been systematically studied. Despite many efforts to develop transport intermodality, road freight transportation is still central to the functioning of the Mozambican economy, as will be discussed below. Road freight companies cater more swiftly, and to more sectors, than any other form of freight transport in Mozambique. Although road freight carriers are key contributors to the development of the mineral extraction sector, they mainly service non-mining sectors and, therefore, are a key element in evaluating the prospects for development of a diversified and balanced production base and for understanding the linkages between the extractive and non-extractive sectors of the economy.

In addition to this introduction, this paper comprises three sections. The first section provides an overview of the transport system in Mozambique and of the dynamics of the Beira transport corridor and its catchment area. This is followed by an analysis of the main drivers of change in the corridor since the early 1990s. The second section focuses on the operation of road freight transport in the corridor, introducing the companies in our sample and describing the type and destinations of the cargo that uses road transport. The concluding remarks, in the third section, present some of the questions for analysis that emerge from the evidence and the literature, and postulate some possible directions for future research.

Transport and logistics challenges in regional context

Despite regional differences and considerable development over the last few decades, transport services are less developed in sub-Saharan Africa than in any other region of the world. It is widely accepted that this is as a result: of a combination of transport infrastructure with foundations in the colonial period's emphasis on extracting raw materials outwards, rather than prioritising economic activity that could stimulate the emergence of backward and forward linkages; of underinvestment to correct such imbalances after independence; and of a unique human geography of vast land areas with lower population density and dispersed economic activity (Dibben 2007; Pedersen 2001; Teravaninthorn & Raballand 2009).

Sparse roads and poorly integrated railways and ports make for slower transit, causing transport prices that have been estimated to be twice as high as the world average and accounting for up to 12.6% of the CIF (cost, insurance & freight) value of exports (UNCTAD 2003; Gwilliam 2011). High prices, long distances, and unreliability of delivery times create additional hurdles for the development of export-oriented manufacturing, which depends on the coordinated and fluid restocking of raw materials and parts (frequently imported) and the prompt delivery of finished products to local and overseas clients. Some authors claim that the inconsistent performance of transport services creates bias towards exporting primary commodities like metals and high-value agricultural products that rely on simpler, unidirectional transportation (Christ & Ferrantino 2011; Gwilliam 2011). Furthermore, time-dependent primary commodities for export tend to use the faster and more flexible modes like road freight transport, but it is products with a high value to volume ratio that can offset the higher prices of trucking when compared with railways. These conditions tend to isolate perishable agricultural commodities with lower unit value which could find export markets but cannot afford transport to the port (Christ & Ferrantino 2011).

The territory and the transport challenges in Mozambique

Mozambique has an area of 799 380km² and a long coastline on the Indian Ocean which creates an advantageous position for trade with the Middle Eastern and Asian markets and constitutes the closest access to a port for Swaziland, Zimbabwe, Malawi and regions of South Africa, Zambia and the Democratic Republic of Congo (DRC). Maputo is the southernmost province of the country, so that the distances to the capital from every other province are also considerable. Mozambique's main ports in Maputo, Beira and Nacala are predominantly transit hubs for containers and cargo destined for neighbouring countries, but increasingly service the burgeoning Mozambican mining sector. Each port connects to a transversal railway and each is currently integrated into regional development corridors, a model introduced in the late 1990s after the South African Special Development Initiative that aimed to boost investment around the Maputo Corridor (Meeuws 2004). While the Maputo Corridor animates southern Mozambique and services the South African provinces of Gauteng, Limpopo and Mpumalanga, as well as Swaziland, the Beira and Nacala corridors are gateways for central and northern Mozambique, Zimbabwe, Malawi and Zambia (see Maps 1 and 2)(Bowland & Otto 2012).

Map 1: Railway networks in Mozambique



Source: www.sharemap.org (railways in Mozambique)

Transport services in the Beira Corridor

The Beira Corridor currently connects the Port of Beira by road and railway (the Machipanda Line) to eastern Zimbabwe, by road to Malawi, and by railway to the Tete province (Sena Line) (see Map 2). Before the ongoing rehabilitation and expansion, the Nacala port and railway were mainly used to transport Mozambican imports and exports, whereas the Beira port was dominated by international transit cargo. A notable feature of the Beira Corridor is that, before the railway line was rehabilitated for the haulage of coal, most of the freight transiting the corridor opted to use road freight carriers, whereas the opposite was the case in the Nacala Corridor, with most users relying on the railway.¹ The reason for this was the poor state of railway coordination on the Machipanda

¹ Owing to the poor condition of the road from Nampula to Mandimba, it is estimated that 90% of transit traffic uses the train – Murithi et al. 2012.

Map 2: Road networks in Mozambique



Source: www.wikitravel.org (Mozambique regions)

Line to Zimbabwe, the lack of a rail linkage from Beira to Malawi (the railway link to Malawi is currently to the Nacala Line), and the availability of only a few wagons and locomotives. Both Malawian and Zimbabwean cargo relies heavily on trucking rather than on rail for this tract. Conversely, the poor condition of roads along the Nacala Corridor explains the more intense use of the railway there. Connected by the Beira transport corridor are Zambia, Malawi and Zimbabwe, all landlocked countries. The largest share of Beira-based road freight companies' business consists of transit to and from Zambia, Zimbabwe and Malawi. Many authors concede that lack of direct access to a port negatively impacts the trade and growth perspectives of a country (Christ & Ferrantino 2011; Gwilliam 2011; Teravaninthorn & Raballand 2009). Not only do landlocked countries experience longer distances to port, but delays and uncertainty in time of delivery are also compounded by border passes that increase the transport time and therefore logistics costs. However, long transport times and costs are not specific

to landlocked countries: poorly serviced regions in coastal countries can also experience such obstacles to trade. As mentioned above, the demand for transport services by landlocked countries and regions that are at a distance from a port, such as inland Sofala, Manica, Tete and Zambezia, southern Niassa, and Nampula, has given rise to the large truck fleet in Beira and the dynamic road freight subsector.

Figure 1: Volume of containers handled at the Port of Beira

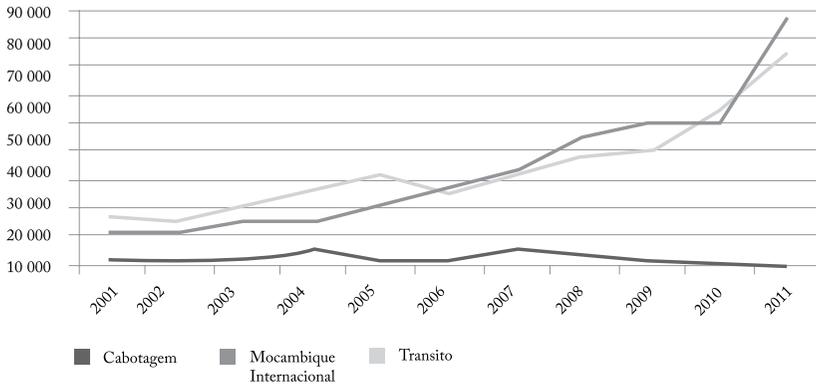
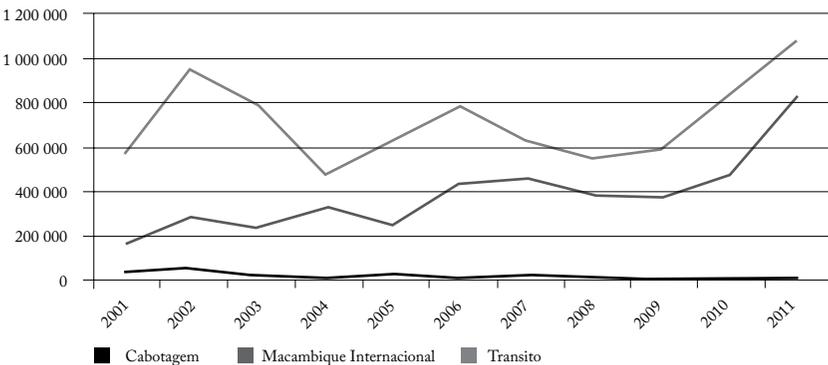


Figure 2: Volume of general bulk cargo handled at the Port of Beira



Source: The author, with data from Cornelder de Moçambique 2.3

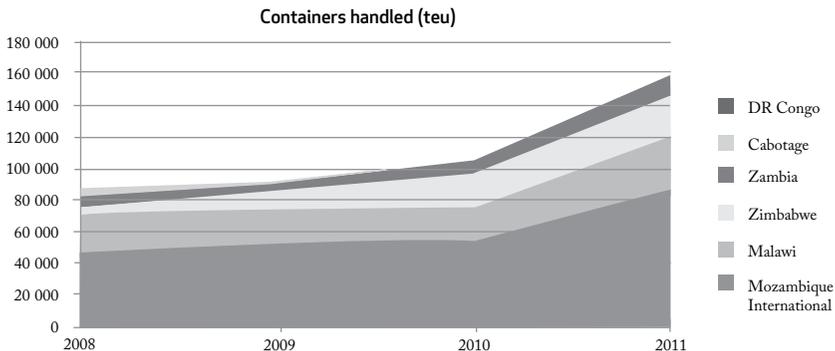
Rehabilitation and present condition of the Beira transport corridor

The Rome Peace Agreements between FRELIMO and RENAMO in 1992 and the end of apartheid in South Africa with the first free elections in 1994 had an evident impact on the politics of transportation along the Beira Corridor. The withdrawal of international sanctions reopened trade to and from South Africa,

reanimating the Port of Durban which, during the late 1990s, acted as the regional transshipment hub for Mozambican ports and also led to bilateral cooperation around the development of the Maputo Corridor (Pedersen 2001; Sequeira 2011). The post-war rehabilitation of roads and railways in central Mozambique was slow, but as will be shown, provided a unique opportunity for the development of the Beira-based trucking companies.

This period also coincided with global transformations, with echoes in Mozambique. The predominance of the structural-adjustment doctrine led to a wave of privatisation of transport services, coupled with trade liberalisation and deregulation. During the early 2000s, port services in Mozambique were privatised or on concession to private operators (Murithi et al. 2012). Similarly, this period saw the full adoption in Mozambican ports of containerised cargo. Although containers had revolutionised maritime transport globally since the 1970s, the capacity to make full use of containers in Mozambique only came about when container terminals and gantry cranes came into operation. While, in the beginning, containers were used for manufactured imports, it took a readjustment of the logistics of the whole system until bulk goods exported from Mozambique could benefit from containerisation as well (Mackintosh 1983; Stephens 1994).

Figure 3: Container traffic in the Port of Beira, by country

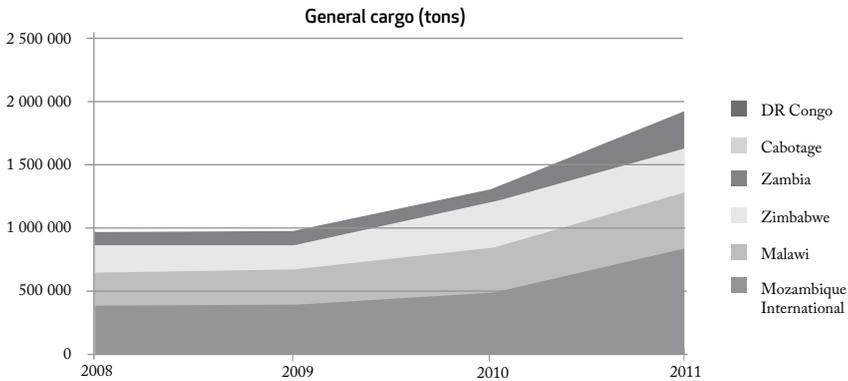


Source: The author, with data from Cornelder de Moçambique

The generalised use of containers dramatically reduced transshipment times, because, rather than downloading bulk cargo from the ships and repackaging it for delivery, containers allow for standardised handling and convenient transfer of cargo from the port terminal directly to the train or the lorry. Also, containers are better at preserving the quality and safety of exported goods and allow for faster shipment. This translated into a reduction in handling costs, although, presumably,

it also impacted negatively on the number of stevedores employed in the port. At present in the Port of Beira, stevedores are hired by subcontractors on a daily and ad hoc basis according to ship scheduling and expected cargo volumes (Murithi et al. 2012).

Figure 4: Volume of general cargo handled in the Port of Beira, by country



Source: The author, with data from Cornelder de Moçambique

In time, container carrier vessels became predominant in transoceanic trade. As a result, being able to handle the logistics around stuffing and stripping containers increasingly became a necessity for African transport systems as well as an access barrier for some African exporters (Pedersen 2001). Worldwide, containerisation is on the rise because traded volumes have risen and because commodities like cotton and tobacco, which used to be exported in bulk, are increasingly packaged in containers. A similar trend is also observable in the Port of Beira.² Most of the companies in our sample specialise in container transport, but, while container traffic is still less voluminous than bulk cargo, it is growing faster. In the Port of Beira, exports represented 71% of all traffic in 2010, with imports amounting to only 29% (Murithi et al. 2012).

The role of road freight transport

Our case study is based on a series of in-depth, semi-structured interviews conducted with some of the largest road freight companies based in Beira and operating in the corridor. Five of these companies operate more than 100 thirty-

² Figures 1 and 2 show, however, that, although container traffic has experienced a meteoric rise, volume-wise bulk cargo (metals, minerals) still dominates.

tonne trailers each. A mid-size and a small company were also interviewed. The following section will elaborate on the antecedents and current challenges for the development of the Beira Corridor, illustrating this, where possible, with findings from the interviews with trucking companies.

Road freight transport in the Beira Corridor

The network of roads and railways connecting to the Port of Beira is strategically located for direct access to hinterland countries and is also at the centre of three of the most densely populated provinces of Mozambique: Nampula, Zambezia and Sofala. The Port of Beira is currently the second-largest in Mozambique in terms of throughput, behind the port of Maputo, but the transport system around the Beira Corridor caters to more demands than just the import/export trade linked to the port. The common stem of the road network is the 135km section along the EN6 from Beira to Inchope, which is the section in the worst condition in the corridor. From Inchope, the EN6 extends a further 150km through Chimoio to Machipanda, on the Zimbabwean border. From Vanduzi, midway between Chimoio and Machipanda, the N7 extends all the way to Zobue on the border with southern Malawi (passing through Tete and Moatize). A branch, the N304 (223), connects the N7 to Lilongwe in central Malawi through the border-crossing at Calomwé/Dedza. From outside Tete, extending to the north-west, the N9 (221) extends 240km to Cassacatiza on the border with Eastern Zambia. From Inchope, the EN1 connects northwards to Zambezia and Nampula across the Caia Bridge (see Map 3). There is no extensive passenger traffic along the corridor, so that the two features that stand out are: up to 95% of the cargo circulating in the corridor (not including the more recent case of coal exports) is transported by road, and 80% of the estimated 3 000 vehicles circulating the network of roads daily are freight trucks (Murithi et al. 2012).

The uneven condition of roads in the central corridor is the combined result of insufficient maintenance investment and a history of conflict in which both Renamo advanced its destabilisation strategy by attacking transport linkages to isolate the central provinces and the apartheid regime purposefully maimed the transport network in order to redirect regional traffic through South African ports (Meeuws 2004; Sequeira 2011; Stephens 1994). A vast territory less densely populated than other neighbouring countries makes for one of the lowest road densities in the region: 4 to 5km of road per every 100km² of land area and a high demand for infrastructure investment per capita, complicating the expansion and maintenance of the road network. Since 1999, ANE (Agencia Nacional de

Estradas) has been the road manager and a Road Fund was created to secure a direct fiscal mechanism for maintenance (Meeuws 2004).

Poor road conditions are said to cause higher transport prices. For instance, although both transits to Malawi and to Zimbabwe go through the Inchope section, container transport prices from Beira to Harare (559km) are reported to be around US\$ 4.11 TEU (twenty-foot equivalent unit)/km as against US\$ 2.73 TEU/km from Beira to Lilongwe (950 km) (Murithi et al. 2012). One explanation for such discrepancy is that the high costs of transiting the Beira–Inchope section are divided into many more kilometres to Lilongwe, whereas they are concentrated in the case of Harare, which is considerably closer to Beira, but it is also the case that border-crossing takes twice as long at Machipanda/Forbes and Chirundu, thereby considerably increasing the transport times and consequently raising the costs (CDM 2012). Border-crossing times are quite disparate because Malawian authorities implement customs procedures at the destination within Malawi, whereas Zimbabwean and Zambian regulations require customs procedures to be resolved at the border-crossing (Ibid).

The road freight transport companies

The demand for road freight services in Beira experienced a steep expansion around mid-2000. Currently, there are numerous players based in the port or operating in the corridor with their headquarters in Malawi or Matola. Although the number of trailers operating has expanded rapidly, there is a lot of specialisation and, increasingly, entry barriers linked to fleet size. Only companies with a sizeable fleet have the scale to sustain frequent accidents and losses, to buy parts in bulk, and to have dedicated road mechanical equipment on standby to assist trailers that breakdown while on remote stretches of the road. Since 2000, the trajectory of the Beira-based companies has been one of accelerated growth, though, today, the sector's ownership structure might already be rather concentrated. As described above, our sample comprised selected companies operating more than 100 trailers, which, by East African standards, are among the largest companies.

Road freight sector companies have a common background. They are all first-generation, family-owned and managed business. With only one exception, all started in the immediate post-war period and are reported to have bought their first truck with personal savings or a family loan. All but one started off with just one truck. For the most part, the founders had some background in mechanics. Those that had been active during the war period were managing small operations with smaller trucks carrying wood, sand or agricultural products around Manica and Sofala. The remainder of the sample – those companies created in the post-

Map 3: Road network in the Beira Corridor



war period – started off with small contracts for humanitarian food assistance cargo delivery for the WFP (United Nation's World Food Programme).

The sustained presence of the WFP in the Port of Beira during the peace-building and reconstruction period, delivering humanitarian assistance and, later on, complementing food supply, created an environment in which these mostly national operators could scale up from embryonic stages to companies that managed to sustain their operations some years later when the humanitarian assistance was phased out. For some of these companies, the WFP was their only client at the time. Those first years with stable humanitarian contracts allowed for consolidation, accumulation, and fleet expansion – in brief, they created the sector. This illustrates an aspect of the political economy of war-to-peace transitions in which resource mobilisation can have these kind of unintended consequences.

Today, it would be impossible to deny the importance of these nationally owned transport companies.³ The existence of the sector has a positive impact in terms of employment generation and national private-sector capital accumulation, yet such a sector would not have emerged in open-market circumstances and is certainly not the consequence of post-conflict liberalisation in the transport sector: it necessitated the steady conditions provided by the peculiar demand of humanitarian operators, which unwittingly acted as an enterprise incubator. Evidently, the WFP did not set out to create a road freight sector dominated by national players, but only to deliver humanitarian assistance in the region. This case causes one to question simplistic narratives about the impact of liberalisation (particularly in post-conflict settings) and is also indicative of what a strategic and sustained sectoral development policy could attain in terms of private-sector support.

The first road to be reopened was Beira–Machipanda. After years of work, mainly with the WFP, the transport companies started finding other clients. The companies that did, managed to expand their fleet and to surpass the threshold below which it is hard to deliver on time to different clients while balancing the lack of a return load, delays in payments, and a heavy-vehicle maintenance and repairs bill. Many trucking companies worked then, and so still do, as subcontractors for the big shipping lines operating routes to the Port of Beira. Vertical integration dictates that the shipping lines could have an interest in operating their own trucks and delivering the containers directly to their clients. However, as some of the interviewees remarked, the road freight transport business is ultimately predicated on optimising movements and finding return cargo, and trucking companies perform better than shipping lines in this respect.

3 Compare this with the case of Zimbabwe where many of the formerly strong and nationally owned trucking companies are reported to have been bought up by South African investors – Pedersen 2004.

By the end of the decade, many of these companies had sustained the loss of one or more trucks, and one of the currently largest companies even went back to operating with a single trailer. However, whereas the catastrophic floods of 2000 left hundreds of victims and wreaked havoc on the economy, struggling transport companies were suddenly again in high demand to provide their services for the humanitarian relief operation. The tonnage transported that year, although unimpressive by today's standards, represented a massive leap for companies back then. A similar surge in demand for transport came about during the droughts of 2001/2002 in Zimbabwe and 2004/2005 in Zambia.

The increase in trade through the Port of Beira and the rehabilitation of the two sugar mills in Sofala further expanded the client base of the Beira trucking companies. Road freight transport is a very labour-intensive activity. By some estimations, transport companies have at least two employees per each vehicle in operation. This includes drivers, assistants, mechanics and administrative personnel. Transport companies in this survey are sizeable employers. Training and skill-building are crucial for drivers, and some companies interviewed seemed very serious about it. Their operation also requires skilled administrative personnel who are highly competent in transport logistics.

Around mid-2000, the most successful companies leapt forward on the back of sustained, profitable long-distance contracts, subspecialisation in specific services such as fuel and flammable-liquid transport or contracts to provide materials for infrastructure reconstruction works. Finally, the commodity-price boom experienced across the region and notably the mining and gas discoveries in Mozambique, the recuperation of the Zimbabwean economy and the recuperation of tobacco production in Malawi have expanded the volumes traded through the hub of Beira and, so long as the capacity of the Sena Railway is used up by coal, business for truckers is on the rise, a feeling shared by some of the companies and freight forwarders interviewed.

Current fleets are sizeable and varied. Specialised companies own tank trailers for fuels, tipping trucks ('camioes basculantes'), concrete mixer trucks ('cisternas para cemento') and flatbeds for carrying construction materials and equipment, as well as specialised cranes for handling bulk cargo and containers. The companies' core assets are the trucks, their offices and parking yard, and the bigger ones own, or are in the process of building, logistical terminals in Beira to optimise storage and handling outside of the port's terminals.

The bulk of the sector's fleet consists of 30-tonne, second-hand, semi-articulated trailers. As in other corridors on the continent, the state of the road infrastructure and the volume of business do not seem to warrant investment in new trailers. The prevalence of second-hand trucks and the recurrence of overloading seem to

be part of the business model: according to estimates, around 35% of the vehicles using the Beira Corridor would be overloaded (Murithi et al. 2012). Overloading and the use of second-hand trucks have been explained elsewhere (Pedersen 2001; Teravaninthorn & Raballand 2009) as an adaptation to low utilisation rates and high vehicle idle time: in conditions of oversupply in which utilisation cannot be optimised, the only way to increase profits is by offering clients more load for the same price. However, such explanation does not sit comfortably with the accounts of different stakeholders in Beira that describe growing demand for transport services and insufficient trucks.

The type of trailers preferred by most transport companies in Beira are American Freightliner trailers with the steering wheel on the left, which are up to half as costly as other second-hand options (e.g. Iveco, Scania, Volvo). Companies buy these trucks abroad and import them into Mozambique directly, without recourse to local intermediaries. In a 2011 decision by the Ministry of Transport, a ban was imposed on all imports of trucks with left-hand steering wheels and it was decreed that use of these trucks in Mozambique would be phased out by 2020, the rationale being that this would allow for more fluid regional traffic and reduce road accidents. This measure is in line with the Southern African Development Community's (SADC's) rule of the road, but is highly contested by the sector's confederation FEMATRO, which sees it as a measure that will give South African transporters the upper hand in the competition for freight in the Mozambican corridors.

The nature of the cargo

The destinations and type of cargo transported through the Beira Corridor are enormously diverse and provide a comprehensive outlook onto the economic activity in the hinterland countries and central Mozambique. Although volumes transported seem to be growing, there are still important imbalances, some of which are inevitable in any transport system and some of which could be avoidable.⁴

One important determinant of the rhythms of cargo transport is seasonality, which affects agricultural produce mainly. Tobacco transported from Malawi and Zimbabwe, and from the only processing plant in Mozambique, has a sales season lasting three or four months, depending on the institutional arrangements in different markets. Tobacco is one of the high-value agricultural commodities referred to in the first section, and it is the main agricultural export in all three

4 Containerised cargo transported through the Port of Beira include timber, tobacco, beans, and sesame (Mozambican exports); and chrome, tobacco, cotton, tea, maize, copper, manganese, and cobalt (transit). Typical general cargo through Beira consists of: clinker, coal, cement, sugar, and wheat (Mozambican imports and exports); and granite, fertiliser, rice, and sugar (transit).

countries. It relies wholly on road transport and uses transport services intensely during the sales season, because it has a relative low weight for volume. One of the mid-size companies interviewed has secured a contract to transport Mozambican tobacco from the processing plant to the port, on the basis of also providing transport services from the tobacco-growing districts to the plant, a riskier leg of the journey considering the state of some of the intermediate roads. Some other trucking companies have contracts with tobacco buyers in Malawi and Zimbabwe. Although at lesser volumes, tea and coffee from Malawi, Zimbabwe and Zambia, and cotton lint from Nampula and Manica, are also transported to Beira for export.⁵

One of the inward cargos that compensates for these agricultural commodities is fertiliser imported for the Mozambican, Malawian and Zimbabwean agricultural sectors. But rather than neatly compensating the back journeys of tobacco-laden trucks to the port, fertiliser is normally delivered in the pre-cultivation period at the end of the calendar year.⁶ For some of the companies, this regular movement of time-dependent commodities is the core of their activity, and other non-seasonal contracts are the complement. But if seasonality shapes the movement along the corridor, perhaps the difficulty of securing backload for some destinations is the most prominent aspect for transporters.

There is a considerable volume of consumer goods, processed foods and beverages going from Beira to parts of Zambezia, Nampula and Cabo Delgado, for which there is little backload. Food products include cooking oil and industrial baked goods produced in Beira and others imported through the port. A sizeable proportion of Mozambique's rice imports come through Beira, as southern Mozambique relies partly on its own irrigated rice fields. One of the operators specialising in national routes described how, on one of the routes they cover, each year they pick up maize from selling districts after harvest, only to return carrying maize flour when the district's stores run out. This illustrates considerable inefficiencies related to the lack of maize mills and silos that could optimise large-scale production and storage in most of central Mozambique.

Sofala is also the location of the sugar mills in Marromeu and Mafambisse. Sugar is not a time-dependent commodity and one of the mills uses the railway predominantly and occasionally contracted trucks for transporting sugar to the port, but sugar mills rely on some of the road freight carriers in our sample to

5 There is a smaller volume of cargo in transit from Zambia (manganese, copper, timber, cotton, tobacco), in part because it is hard to secure a backload to compensate for the long distance (mainly fertiliser). It remains remarkable that, despite a far shorter distance to Beira than to Durban, cargo from Zambia predominately prefers the South African ports and Dar es Salaam.

6 Tobacco is the number one containerised commodity handled through Beira, while fertiliser is the top general cargo commodity handled. The construction of a fertiliser plant in Beira is in the pipeline, processing urea from Mozambique's recently discovered gas deposits – ICF International 2012.

supply them with coal and transport machinery, as well as spare parts. Similarly, equipment and machinery are an important flow from the port towards Malawi and Zimbabwe. Road transport companies are also central in delivering construction materials, cement, clinker, tarmac and steel around Mozambique and to neighbouring countries.

Transit cargo is increasingly containerised, but commodities such as clinker, fertiliser and wheat transported to Zimbabwe and Malawi are transported in bulk. Granite is exported from Zimbabwe. Part of the metals exports from these countries also uses road freight carriers: chrome and one-tonne copper slates cross through Machipanda. One truck can carry up to 25 slates, which can fetch a price as high as US\$ 1.5 million in the market.

The bulk of the import transit cargo to Zimbabwe and Malawi comprises containers with consumables. Malawi is an important destination for second-hand clothes. Electronics, appliances and other non-bulk products also come in containers. The one requirement of containers, which in part limits their penetration into national circuits, is the infrastructure to handle, strip and stuff them, which requires lifting cranes, platforms and more sophisticated logistics, let alone ownership of the containers themselves.⁷ Most of the containers belong to the shipping lines and are rented on a daily rate. These logistical and scale requirements mean that domestic agricultural trade prefers using five and ten-tonne trucks and smaller and easier to handle crates and baskets, even when covering the same routes as the export trade.

Finally, some of the companies in our sample specialise in transporting gasoline, diesel, condensed gas or jet fuel. Fuel transport is considerably different. Not only are there specialised equipment requirements, but fuel transport is obviously an activity with no backload. Tanks cannot be mixed and matched for different types of contents, and, because of the nature of the liquids, transporters do not need to enter the port for pick-up, but rather deal directly with fuel providers. Fuel distributors will have their own transport fleet, but hire transport companies as contractors to cover difficult or distant destinations. Some transport companies specialise in national fuel haulage and others have contracts with fuel distributors to supply neighbouring countries and even jet fuel for Kolwesi and Lumumbashi in the DRC. However, as national demand for specialised fuel grows on the back of mining activity, it becomes more attractive to concentrate on the national deliveries, considering the shorter distances and the lack of backload cargo.

7 According to the interview with a shipping agent in Beira: the shipping lines operate a stock of dry cargo containers and refrigerators to rent to Mozambican customers and in transit.

Strategy and business model

Optimisation of routes is a constant preoccupation for the companies interviewed. Their responses to the lack of return cargo seem to be determined by the size of their fleet and the types of haulage. Smaller companies may allow the trucks to stay in the destination for a couple of days and try to secure some cargo. Bigger companies can transfer the cost to clients but compete on the basis of speedy delivery and reliability. This links to difficulties companies experience with payments by clients. Payment delays are usual and, for companies with clients operating in other currencies, sometimes aggravated by the discrepancy of the exchange rate at the time of billing and payment. Companies also navigate the capricious waters of the region's markets and politics. When a crisis hit Zimbabwe and, more recently, Malawi, companies with wide exposure in those markets felt the reduction in business and their clients' difficulty in securing foreign exchange for the payments.

Companies strive to maintain a balanced client portfolio. Some combine national and international operations, some regular and single clients, and some subcontract smaller truck companies to comply with large orders. Large companies with big fleets specialising in transit cargo would find it hard to scale back to the national market, which they would end up flooding. All of the interviewees reported that there is a lot of competition for freight transport in the corridor, but also agreed that, overall, the environment is positive for companies and clients. Cosy competitors in other ports have been accused of cartelisation and price-setting, but there is no evidence that this is the case in Beira (Raballand & Macchi 2008).

Over the years, most of the companies interviewed have reinvested their profits in their own fleet, but have also expanded beyond their core business. A subgroup of companies has obtained an interest in civil construction as a result of their participation in past construction and civil engineering projects. What originally started as just complementing their fleet with the kind of vehicles that could be used in such projects (e.g. tipping trucks and flatbeds), has given way in some cases to assembling a yard of vehicles, cranes and equipment for hire or to the creation of outright civil construction subsidiaries, complete with equipment and, in one case, setting up an engineering consultancy and an import-export office. One of the companies interviewed has a passenger transport branch. A couple of companies have teams of mechanics deployable to aid stranded trucks on the road and can now market those services to third-parties. Other companies intended to deepen the services on offer to their clients and are branching out into other logistics, freight forwarding and handling services, such as setting up their own

container terminal, which gives them room to try to capture economies of scale and provide more customised freight handling. Other companies have interests in real estate, agro-industry and tourism.

In this section, we have outlined the context in which a powerful national private sector of road freight carriers emerged in Mozambique in the years following the end of the Civil War, its consolidation on the back of contracts with humanitarian agencies operating in the region, and its accelerated growth in the past decade. We also looked at individual company trajectories of a group of transport companies that experienced a similar progression, as well as at the types of cargo transported and different corporate reinvestment strategies. A couple of observations emerge from this reconstruction. Firstly, the road freight transport prospered in the niche of opportunity created by the shortfalls and limitations of the development, maintenance and operation of the railway services. Road freight transport is not the most efficient transport solution for a group of commodities and this implies that there is an ample margin for making the corridor more competitive, both in relation to other ports and in terms of the share of final prices linked to transport costs, just by making railway services accessible and performing. In a way, the powerful truck companies are capturing a rent, and could have vested interests in the development of a type of intermodality that protects their position in the market. Whereas in the interviews all companies expressed the view that road and rail cater to different needs and that there is no incompatibility in the development of the two, truck companies are a powerful and organised subsector with political leverage (Khan 2011). In the case of the transport sector in central Mozambique, the situation is further complicated because the promotion of private players in the road transport sector is in contradiction to the development of the state-dominated railway sector and because, in the absence of coherent industrial policy, the transport sector seems to gravitate towards meeting the needs of the extractives sector without contributing to the creation of a more balanced, productive structure.

On the other hand, there are other commodities and circuits for which the adaptability and speed of road freight transport are essential. As this paper has shown, Mozambique has a cluster of performing truck companies that are competitive in the region, are labour-intensive and could push development in other sectors, especially in the production and processing of time-sensitive commodities. The peculiar conditions that gave rise to this sector warrant its protection. But, again, the development of transport services is not an end in itself but is linked to goods that are demanded and supplied, traded domestically and exported. Coordinated and strategic state intervention in this sector needs to adapt to the priorities of agricultural and manufacturing development strategies

and the right incentives must be introduced to bind productivity enhancement in a way that allows for the regions' exports to lower their transport bill in order to raise labour productivity and wages.

Concluding remarks

The overarching question addressed in this paper was that of the transformation of the Mozambican economy and its impact on the road freight sector. We have traced the business trajectory of a group of privately owned trucking companies; have identified transport service provision as the site for capital accumulation, with current spillovers in logistics and in other economic sectors; and have underscored the national character of this burgeoning subsector, a feature that stands out in a country somewhat dominated lately by large-scale foreign direct investment.

We have similarly explored the scenario in which they operate, the interface between railway and road-bound transport, the particularities of the types of cargos and destinations, and foreseeable opportunities and challenges. Mozambican road freight companies experience intersector competition, but also, in the relative absence of proper intermodality, fight their corner with the railway, which is experiencing an accelerated transformation the consequences of which are currently unforeseeable. Competition for cargo is also competition among corridors. But Beira's advantageous geographic location is far from securing its dominance in respect of transit freight. Path dependency, economies of scale, prices and reliability may still be tipping the balance in favour of Durban and, to a lesser extent, Dar es Salaam.

A number of questions emerge from the evidence discussed. At present, we can do little more than enunciate them, as further research is necessary for their thorough consideration. A prominent question is looming regarding any developmental strategy in Mozambique: with such a transversal transport system, with epicentres of capital accumulation linked to natural resource extraction that do not necessarily coincide with the geography of the more diverse non-mining economic base, and with a variety of sectors and social groups with different and at times contradictory transport needs, should infrastructure investment and long-term transport development improve and extend the current extraction-oriented transport system? Are there regions, users and sectors that warrant challenging this path-dependency for efficiency, economic sustainability or social-justice reasons? Furthermore, what political and economic interests are represented among the transport sector authorities in Mozambique, what leverage and intention exist to actively conduct the sector towards alignment with a long-term, broad-based

development strategy, or will state intervention remain confined to regulating the increasingly liberalised market for transport services? Similarly, what is the role of the state in the interface of railways – the remaining and influential bastion of state-owned enterprise – and road freight – a fully privatised sector?

The emphasis on the role of the state is not fortuitous: if the road freight sector in Beira is privately owned and operates currently as an open market, this paper has shown that its emergence was possible in a period of exceptional conditions. This case study suggests that powerful national players will not arise spontaneously and that it is necessary that the state creates the conditions under which – in ways that are amenable to the Mozambican context and to the needs of different social groups in the country – capital accumulation can lead to productivity enhancement and employment generation.

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THE DIFFERENTIATED IMPACT OF THE EXPANSION OF SUGAR PRODUCTION ON THE WELL-BEING OF AGRICULTURAL WORKERS AND COMMUNITIES: THE CASE OF XINAVANE AND MAGUDE¹

Yasfir Ibraimo

Introduction

The socio-economic contribution of the sugar industry in Mozambique has been associated with: (i) the creation of jobs; (ii) an increase in exports; and (iii) supplying the domestic market. Shortly after independence, sugar production fell and, in the 1980s and 1990s, as a result of the Civil War, the levels of production again declined significantly, thus affecting the contribution of this sector to the economy. Given the recognition of the role of the sugar industry in the Mozambican economy, even when the country was plunged into political and economic crisis, the government did not forget its intention to revive this industry. The government's incentives for the recovery and expansion of sugar production in the late 1990s were intended, on the one hand, to contribute to the economic recovery of the areas where sugar mills had been built, and, on the other, to improve the balance of payments by increasing exports.

¹ This paper had its genesis in a more general article entitled, "The Expansion of Sugar Production and the Well-Being of Agricultural Workers and Rural Communities in Xinavane and Magude", written by Bridget O'Laughlin and Yasfir Ibraimo. This general paper can be found in CADERNOS IESE no. 12E.

The increase in sugar production in recent years has resulted from the major investments made by the sugar companies in rehabilitating their factories, expanding the areas cultivated with sugar cane, and improving management and efficiency within the framework of the relaunching of the sugar sector.

Discussions on the impact on poverty of the revival of sugar production have placed great importance on the increase in monetary income from the wages of the workers and also the income earned by the independent producers and the association of sugar-cane producers. This paper argues that the income generated by waged labour is an important question, but is only one of the determinants of well-being. Well-being cannot be measured only by consumption and the possession of goods, but must also take into consideration questions such as access to health care, working conditions, social conditions, the quality of the air and the water consumed, and the environment in which workers live.

This paper intends to analyse the links between the organisation of sugar production in Xinavane and Magude and the well-being of the agricultural workers and the surrounding communities. The paper presents four main areas of impact: (i) the relationship between material improvement in well-being and the growth in employment and incomes; (ii) access to food and the trade-off between increased income from sugar and reduced access to land in the Incomati Valley for rural subsistence; (iii) the incidence of health problems related to work in the sugar-cane fields; and (iv) the relationship between sugar production and environmental health, particularly the quality of land, air and water. The paper does not intend to measure the impacts and does not predict future impacts, since these will depend, to a large extent, on the response of the various government actors involved in sugar production in the Incomati Valley. Rather, the objective is to identify questions of governance which should be considered and to question the argument that the employment generated by sugar production is the salvation for people living in the Incomati Valley.

Revival of the Xinavane Sugar Company

In 1998, the South African company, Tongaat Hulett Sugar,² acquired 49% of the shares in Açucareira de Xinavane (Xinavane Sugar Company [AdX]) and the other 51% remained in the hands of the Mozambican government (Tongaat Hulett 2012:8). In Mozambique, this company, apart from operating AdX, also controls

2 Tongaat Hulett is a South African company which produces a variety of sugar-cane derivatives. This company is operating in six Southern African countries, namely South Africa, Botswana, Namibia, Swaziland, Zimbabwe and Mozambique (Tongaat Hulett 2012:8).

the Mafambisse Sugar Company³. As a result of investment in modernisation of the factory and in rehabilitating the sugar-cane fields, the Tongaat Hulett participation in AdX rose to 88% in 2008⁴, that is, the Mozambican government became a minority shareholder with 12%.

The investment made by Tongaat Hulett in the AdX industrial complex increased the sugar-cane milling capacity of the factory. Consequently, in order to supply the factory with enough raw materials, AdX had to expand the cane-production areas. This expansion was possible owing to a combination of production from its own land, from associations of small producers, and from independent private producers. These investments essentially sought to take advantage of the opening of the European Union market to imports, at preferential prices, of sugar produced in the member countries of the ACP (African, Caribbean and Pacific) group.

In Xinavane, in 2009/2010, Tongaat Hulett rehabilitated the infrastructure and expanded the factory's production capacity by about 208 000 tonnes of sugar a year. During the rehabilitation phase, most of the original channels, drainage system and pumps designed for irrigation were repaired and redesigned for the current systems, including pendular irrigation and irrigation by rotation.

AdX is less dependent on contracted producers (it has about 4 000 hectares of sugar cane of its own) than the neighbouring company, Maragra, which has very little space for expansion. AdX has the possibility of depending mainly on the direct production of cane from its own plantation (about 12 000ha) and to satisfy the increased capacity of its factory, because it has been authorised to take control of the land of the old state farms, formerly planted with citrus fruit along the Incomati in the Magude and Moamba districts. This expansion was almost complete in 2009, although AdX is still negotiating with some small producers to take control of areas of intervention.

Main areas of impact of the expansion of sugar production

The impact of sugar-cane production on the well-being of agricultural workers and of the community depends on how production is organised. Based on this research, it was possible to identify four areas of impact, namely: (i) the relationship between material improvement in well-being and growth in employment and incomes; (ii) access to food and the trade-off between increased income from sugar and reduced access to land in the Incomati Valley for rural subsistence; (iii)

3 Açucareira de Mafambisse is located in Sofala province. Tongaat Hulett owns 85% of the shares and the remaining 15% are held by the Mozambican state (Tongaat Hulett 2012:102).

4 <http://www.hulett.co.za/ops/mozambique.asp>.

the incidence of health problems related to work in the sugar-cane fields; and (iv) the relationship between sugar production and environmental health, particularly the quality of land, air and water.

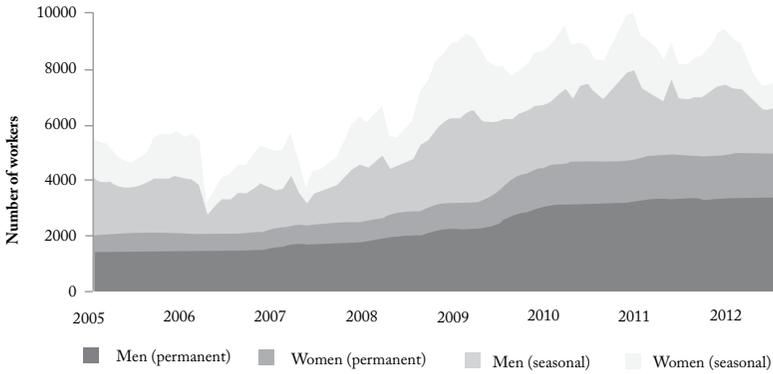
The relationship between improvement in material well-being and the growth in employment and incomes

In the areas where AdX operates, there is certain recognition of the importance that increased employment has had in rejuvenating the local economy. As for the relationship between improvement in material well-being and the growth in employment and incomes, one notes that it is not realistic to expect AdX to continue increasing employment much beyond the current level of about 10 000 workers. Right now, the multiplier effects are weak. The research also found that a large part of the current agricultural workforce is paid at the lowest wage level and that some of it is recruited seasonally. To ensure their subsistence, the wages that the agricultural workers receive need to be complemented by other agricultural or non-agricultural activities.

Growth in the number of jobs

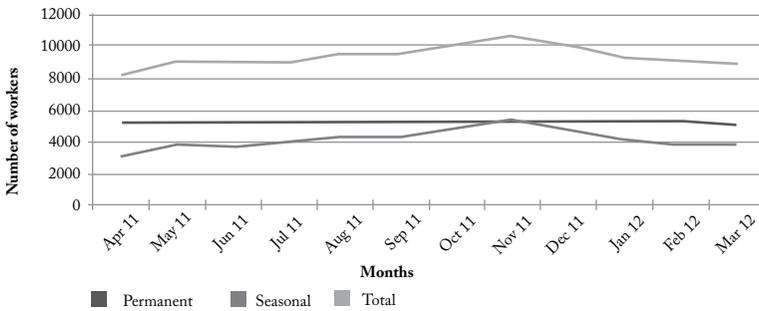
The employment generated by AdX (see graph in Figure 1) shows a constant growth for both men and women, with most of them having permanent contracts (see graph in Figure 2). The data shows that AdX has employed approximately the same number of workers since 2007. The expansion into new areas of production did not lead to continual growth in employment. Increases in productivity linked to technological innovations led to the loss of some jobs in the cane fields, for example irrigation assistants who are less needed with the current system in which the water is controlled by computer. It may be, however, that the relative decline in seasonal workers, as shown in Figure 2, means a greater number of days worked and, consequently, greater wage gains for the permanent workers. AdX also outsources some parts of the production process, such as construction and the transportation of sugar cane to serve the suppliers who also hire workers locally. In general terms, however, it cannot be expected that the conversion of large areas of the Incomati Valley to irrigated production will lead to constant increases in waged labour.

Figure 1: Evolution of the workforce in AdX, by sex and category – January 2005 to July 2012



Source: O’Laughlin & Ibraimo (2013:23)

Figure 2: Number of permanent and casual workers in AdX – April 2011 to March 2012

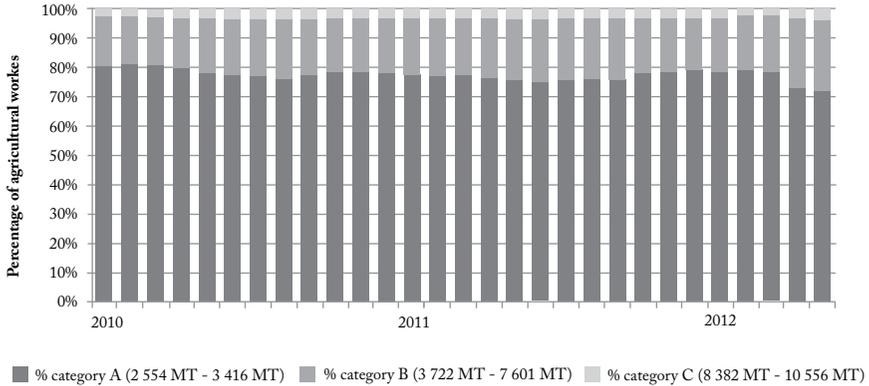


Source: O’Laughlin & Ibraimo (2013:24)

Increase in monetary income

For most of the agricultural workers, whether permanent or seasonal, employment provides, at best, a subsistence wage throughout the agricultural year. According to Figure 3 between 72% and 87% of the AdX workers earn wages in Category A, that is, they earned a maximum of 3 416 meticaís a month. Within Category A, the great majority of the agricultural workers are in Category A1A and receive a maximum of 2 554 meticaís a month. In the peak recruiting months (during the campaign period), about 80% of the seasonal agricultural workers were in the A1A band; for the rest of the year, about two-thirds were in the A1A band.

Figure 3: Percentage of agricultural workers by pay scale (A, B & C) – January 2010 to May 2012



Source: O’Laughlin & Ibraimo (2013:25)

Furthermore, it is rare for unskilled workers to receive the maximum wage, even when they are classified as permanent workers. From observing the payment sheets of AdX and Vamagogo⁵, it was found that both the casual and the permanent workers do not always manage to work for the total number of days in a month necessary to obtain the maximum specified for their category. Sometimes, they work and are only paid for half a task. For most of the seasonal workers, particularly those in the A1A band, the subsistence of their households cannot depend wholly on waged labour. Their subsistence also depends on producing their own food or on other forms of non-agricultural work.

The workers in most of the associations are managed by AdX; the wages and work norms are similar. The members of the associations, which are formally leasing land to AdX, receive a monthly income covering their association fees, their sugar-cane harvest and their costs. In the associations where a small number of members possess a relatively large number of hectares, the incomes have been large. This has been an incentives for other smallholders to request AdX to lease their land (e.g. on Ilha Josina). But it has also been the reason why those who already have land rights within the area of the association ask to become members. In 2009, some of the associations, such as Maria da Luz Guebuza and Olhar de Esperança in Magude, had 200 or more members, and membership has continued to increase. In these cases, the income obtained is much less, leading to complaints about the deductions made by AdX. In these associations, the highest incomes

5 Vamagogo Estates was set up in 2001 by a South African company, Sunshine Seeding Services, which is diversifying its activities in the Xinavane region. It has about 1 400ha for cane production and a further 2 000ha hectares for cattle production in Chibanza, on the periphery of AdX. It has a lease for 48 years (so it still has 36 years to run) on AdX land, and has made major investments in rehabilitating the place and building irrigation infrastructure, with improvements still continuing. It purchases its own inputs and organises its production process, depending on AdX only for the purchase of its cane (O’Laughlin & Ibraimo 2013).

are earned by the staff, since they are usually permanent AdX workers occupying permanent supervisory positions.

Multiplier effects on trade and employment

Given the prevalence of subsistence wages, it is not surprising that the multiplier effects on local trade are rather limited. Shopkeepers interviewed in Xinavane and Magude spoke of their 'business at the end of the month'. When the workers received their wages, they came to make their monthly purchases, and a few more items of consumption. The shops competed with the street vendors who flocked to the town with basic foodstuffs, drinks, second-hand clothing and shoes, fruit and vegetables, and some more expensive items such as cell phones, but they disappeared from the streets in the second week of the month. However, most of the shops had large sections selling tools and building materials. Their main clients were the specialist workers and technical staff, particularly those working at the factory.

In the rural areas, where the workers were living, there were also benefits for local trade. For a long time, Manhiça has had an artisanal pottery industry. Currently, there are brick-making kilns scattered across the landscape. The bricks are sold to local clients and builders from the city. Brick houses are gradually replacing the old circular houses with walls made of reed. The owners of the kilns are often skilled or better-paid workers who employ family labour, but also hire local labour by the day. Some also possess irrigated plots and use their regular wages as rotating capital in commercial agriculture, hiring workers by the day for vegetable production. Most of their produce is sold in Maputo.

Particularly in areas near the camps, where migrant workers, mostly cane cutters, are accommodated (e.g. Tanninga and Timanguene), the local residents erect stalls where they sell beer, cigarettes and locally distilled alcohol both to returning migrants and to plantation workers. Some women prepare and sell local beer and there is a small trade in marijuana, used by some cane cutters to accompany the rhythm and intensity of the work. The rice sold is mainly imported Thai rice: some of the maize flour comes from central and northern Mozambique, but much of it is imported from South Africa.

In interviews with bank staff in the towns of Manhiça, Xinavane and Magude, they confirmed the limited multiplier impact of income from waged labour. Some fieldworkers have opened personal bank accounts and are enthusiastic about being paid by cheque, just like the factory workers. They suggest that this protects them from unjustified deductions from their wages. But the requests for loans come mostly from the better-paid and skilled staff, usually for building or repairing a house. One of the associations of producers hired in Magude, however, contracted

a loan from a micro-credit bank and then used it to make unguaranteed loans to its members.

Food security: The trade-off between sugar income and restricted access to irrigable land

As for food security, the study concluded that the conversion of the Incomati Valley to the production of a sugar-cane monoculture has increased the vulnerability of households to changes in prices on international markets, not only for sugar, but also for basic foodstuffs. It has also reduced the variety of alternative activities whereby small producers can obtain income. Currently, their subsistence depends on a range of activities, including fishing, raising livestock, and food production in irrigated fields.

Income from sugar as an essential contribution to the food consumption of the workers and their families

The level of subsistence from the wages and income gained from sugar production refers to real wages, that is, what the money can buy. Based on informal research into the prices of basic foodstuffs in the shops and on the streets of Xinavane and Magude, the prices were approximately the same as those asked in Maputo city. Basic foods such as maize are about twice as expensive in southern Mozambique as in the rest of the country, reflecting both the higher level of urbanisation and also the irregular harvests associated with rain-fed production in this semi-arid zone. Rural households in Maputo province as a whole are more dependent on the market to obtain food for their own consumption than in any other province: only 20% comes from their own production, with the rest coming from purchases (62%), offers and other transfers (14%) and casual work (4%).

Care should be taken with this data. The research was based on information from the heads of household and was undertaken in late August or early September when the stocks of households' own production are probably exhausted. Basic foods are the main focus of the results reported, leaving aside vegetables and fruit which contribute to the diet. The rural areas of Maputo province include areas which are currently mixed residential suburbs of the great urban conglomerate of Maputo City, where family agriculture is marginal. However, the importance of purchased foodstuffs in Maputo province seems clear.

Statistically representative research into households was not undertaken, but both plantation workers and women in households without employment or

income from sugar were interviewed about the food they had eaten in the previous week and how they had obtained it. We interviewed the households in July, a time of year when stocks from the last harvest are low. The 2011/2012 agricultural year had been poor for farmers in a rain-fed regime: the late torrential rains were followed by a long period of drought. A small number of households managed to mix their own stocks of maize with purchased flour and to make 'nshima', but most depended on purchasing basic foodstuffs. Some fished in the Incomati, but others bought dried fish and/or meat once or twice a week. They complemented their minimum stock of basic foods bought in various ways. Some (including the cane cutters) looked for green vegetables in the outlying fields, and women and children carried out tasks for relatives and neighbours in exchange for food. A household strongly dependent on remittances from a migrant worker in Cape Town, for example, was making a meal out of fish heads which the oldest daughter had received in exchange for helping a neighbour clean the fish. Women who had once worked for AdX, but who had been refused a second contract, told us that they needed to work in order to feed their children and send them to school.

A stress on the subsistence level of the wages and income from sugar production for most rural households does not imply that income from plantation work is not important for the rural households of the region. The Manhica district health director said that child nutrition had improved so much recently that they were thinking of stopping the school feeding programmes. Given the central importance of food to health, it is not surprising that so many people in Xinavane and Magude associate the rebirth of the local sugar industry with an improvement in well-being.

The importance of access to land in the Incomati Valley for rural subsistence

The National Union of Peasants (UNAC) has appealed to small family producers to safeguard food production, urging them not to convert their irrigable land to sugar, but to recognise the importance of food self-sufficiency. This draws attention to the vulnerability of small farmers faced with the whims of the international food markets and sugar prices dependent on preferential schemes of the European Union. The limited success of this appeal in the Xinavane area is related to the diversity of patterns of access to and use of land in the valley.

The people interviewed included many who had small plots of rain-fed land and neither possessed nor were able to rent the ploughs and pairs of oxen necessary to work the land in the Incomati Valley. Others were members of associations that had kept small irrigable areas in reserve for growing maize, cassava and vegetables, mostly for their own consumption. The chairperson of one association

has two large plots in the valley where he produced maize and vegetables for sale. Some farmers said that they had once cultivated land abandoned during the war by Incomati Estates, but had been expelled. Other farmers said that they were growing basic foods for their own consumption and vegetables as a cash crop, but who wanted to negotiate a lease agreement with AdX. They thought that sugar cane would give them a larger and more secure income.

There are differences between Magude, Ilha Josina and the rest of the Xinavane area in terms of land rights and their relations with AdX. In Magude, AdX occupied land abandoned by the citrus farms during the war. Some smallholders had tenure rights to this land in terms of the Land Law and others had long-term rights as members of the establishment of the Swiss Mission (Gengenbach 2000). Ilha Josina was never occupied by Incomati Estates. The uncertain formal status of the claims to land that was historically controlled but not cultivated by Incomati Estates underlies the conflicts within the associations and between associations and those who were not accepted as members both in Xinavane and in Magude.

The consolidation of title to the lands of AdX along the Incomati has implications for access to land and water in respect of other aspects of subsistence in the Xinavane area. In Magude, access to the river for watering the cattle and for pasture in the dry season has sometimes led to conflicts between AdX and cattle farmers. In 1981, only about 10% of households in Manhiça, but more than 50% of households in Magude, owned cattle. Herds were decimated during the war, but they are recovering and are an important source of income as well as investment in Magude. The 'accidental' incursion of cattle into the cane fields at night, in Timanguene, obliged the company to hire guards to protect the perimeter. Women use the floodplain to cut reeds which are then woven into mats by the men for sale. In the river, fish are caught for subsistence and for sale, but with the catches being affected by the chemical runoff from sugar production.⁶

The incidence of health problems related to work in the cane fields
Sugar production based on irrigated systems does not necessarily lead to an increase in health problems, either for the workers or for the surrounding communities. In some cases, the way in which production is organised may lead to an improvement in health conditions. There are, however, some questions typically associated with sugar-cane plantations which must be considered. The objective of this section is not to draw firm conclusions, but to identify matters which deserve the attention both of the plantation managements and of those linked to the promotion of the well-being of the workers and of the communities where they live.

6 The use of insecticide-treated mosquito nets for fishing contributes to water pollution.

This section notes that the organisation of sugar-cane production is also dependent on chemical inputs. The systems for recruiting, accommodating and paying the agricultural workers encourage haste in concluding tasks and leave the responsibility for guaranteeing their well-being up to the workers themselves. This could compromise the safety of the worker (and of the community). It also complicates the control of diseases such as malaria and HIV/AIDS.

Management of malaria: The problem of re-infection

There are three aspects to consider in the prevention of malaria: (i) elimination of the parasite from stagnant water; (ii) elimination of the mosquito vector; and (iii) reduction of infection among the population (Packard 2007). The director of AdX, Rosário Cumbi, has complained that many of the criticisms of the plantation assumed, in a non-rigorous manner, that stagnant water in the irrigation system was one of the main causes of the high incidence of malaria in the Xinavane area. He drew attention to the effectiveness of the AdX pumping system, which keeps the water in the channels moving, thus limiting the reproduction of the vectors of bilharzia and of malaria. Indeed, the only place where the health authorities expressed concern about bilharzia was outside the sugar-production area, specifically in Motaze, in Magude district, where it was said that young shepherds contracted the disease because they took baths in pools of stagnant water. As for malaria, the AdX plantation also has a team of 23 workers who carry out regular spraying programmes in the workers' accommodation and in the fields and participate three times a year in the spraying campaigns of the District Health Directorate in Xinavane. There are, however, problems in coordinating spraying programmes between AdX and the Magude district authorities.

But for malaria, the question of prevention extends beyond the boundaries of the company properties, affecting those who work in the cane fields, including the cane cutters accommodated in company camps and those who live locally in Xinavane, 3 de Fevereiro and Magude. The anopheles mosquito does not infect workers in the fields during the day, but after nightfall in their camps, houses and communities.

Researchers at the Manhiça Health Research Centre (CISM) undertook an extensive investigation into the incidence of child and adult malaria in a section of Manhiça district, which includes part of the AdX catchment area in the 3 de Fevereiro locality. The study concluded that, in the dry season, almost half the adults were infected by *P. falciparum* and suggested, based on other studies, that the cumulative prevalence of adult bearers of the parasite during the year is probably close to 100%, due either to the chronic nature of malaria infections or to frequent re-infections (Mayor et. al 2007:5). They also discovered that many of

the infected adults did not display the symptomatic high fevers; accumulated adult immunity restricts malaria to a subclinical course. The CISM study concluded that a more sensitive definition of malaria in adults should be formulated, taking into consideration other symptoms such as diarrhoea, tremors and headaches, combined with the presence of parasitemia.

Reducing the frequency of re-infection in the expanded recruitment area is thus crucial to preventing malaria among the adult population of Manhiça in general and among the sugar workers in particular (and hence for labour productivity). The current focus of prevention in Maputo province is on exposure to the vector – the anopheles mosquito – through spraying and the distribution of insecticide-treated bed nets. As mentioned earlier, there is communication and some collaboration of AdX in the programmes in the immediate area of Xinavane, although it is not institutionalised in the new areas opened in Magude. Vamagogo has no community programmes. This leaves two fronts open for prevention: (i) reproduction of the parasites and vector in the drainage areas beyond the boundaries of the properties; (ii) reduction of re-infection (and transmission) among cane cutters recruited seasonally who come every year from areas outside the control programmes.

Work accidents and chronic conditions

Accidents in the fields are frequent, but are mostly minor, often resulting from haste or fatigue and sometimes preventable. The cane cutters mostly complained of chronic back pains and of headaches. Both AdX and Vamagogo recognise that the agricultural workers need protective equipment. AdX provides all its workers with protective uniforms for the various tasks. Both the companies have obligatory intervals to allow the workers to rest or eat. But, in the fields, management does not monitor closely the use of the protective equipment or the rest routines. Its main concern, like that of the workers, is to finish the tasks quickly, which sometimes leads to accidents, particularly among the workers who are less resistant or less skilful.

Exhaustion, dehydration and hunger

The managers of AdX and of Vamagogo are aware of the importance of the workers' resistance, since this is an aspect of labour productivity. Absenteeism and difficulty in completing tasks are reasons why fieldworkers are not promoted to permanent contracts. In all, however, the companies expect the workers to organise themselves 'to reproduce their labour power'. The cane cutters are transported in trucks, but others arrive on foot (sometimes walking for two hours before they even start their day's work) or by 'chapa' (a minibus or open pick-up truck).

So the field workers get up early. Often, the women leave even before their children have woken up, sometimes eating leftovers from the previous day, and sometimes without eating anything at all. The women do not bring the children they are breastfeeding to the fields. There is no safe place to leave them. Neither of the companies provides a meal for agricultural workers, although Vamagogo offers an energy supplement – Morvit – to the cane cutters. All the AdX agricultural workers receive a plastic bottle which can hold two litres of water. They are supposed to bring water to drink from their homes to the fields (or, in the case of migrant cane cutters, from their camps). In the hot season, the companies place containers with drinking water in the fields.

Labour rules, recognised by both companies, demand intervals for rest. Workers with skilled jobs receive a monthly wage for a fixed number of hours of work. Usually, they have compulsory intervals, and they bring food to eat. Those who are working on a piecework regime, such as the cane cutters and the weeders, are reluctant to take the obligatory interval. They leave early for the fields, they do not always have food to bring with them, and they ration the water they bring from home. They are anxious to complete their task and leave, so that they can go home, wash, cook the main meal and look after their children. Nonetheless, the women weeders wait for one another, because it is safer and more agreeable to go home in groups.

Irregular use of protective equipment

Both AdX and Vamagogo distribute protective equipment to the cane cutters. The cutters wear the boots and trousers, but often leave aside the goggles, gloves and overalls, claiming that these interfere with their ability to swing the knife with speed and accuracy. Speed is important, because payment for the day depends on ending the task given: they push one another to finish quickly and go back to the camp. The Vamagogo uniform is black, but in AdX (as in other Tongaat Hulett plantations in South Africa) the uniform of the cane cutters is white, and is quickly dirtied by the burnt cane, which is another reason given for not wearing it. Those who work on manual spraying have, and generally use, face masks, gloves and boots. The workers, many of them local women, who weed and clean the fields after the cutting and plant new cane use their overalls and boots if they have them.

Sanitary conditions and spread of infectious diseases

The sanitary conditions expose the workers to intestinal infections and parasites. There are no sanitary installations in the fields. Both workers and managers told us there is no toilet cleaner or with more privacy than a place in the highest cane. This is neither convenient nor safe for the women. The fields of high cane are

places where women are vulnerable to assault if they are alone. If they wash their hands, they do so in an irrigation channel or at the tap in a pumping station. The workers sometimes fetch water to drink at the pumping stations or even from the irrigation channels.

The sanitary conditions in the camps are another vulnerable point. They have water, electricity and latrines, but the density of the housing makes sanitation a problem. For some time, AdX hired outside management for the camp, but, after a wave of deaths from cholera, it included the camps once more under the central management. The camp in Vamagogo belonging to AdX was reshaped. Windows were put in the walls and improved sanitary installations were installed. The Timanguene camp is new, but the cane cutters complained to us that it is overcrowded, that there is intensive use of the latrines, and that there are problems of maintenance. The workers take care to have a bath when they return from the fields to free themselves of the dust, which they know contains chemicals and irritates the skin, and they put on clean clothes if they have them.

Sexual health

Both plantations, AdX and Vamagogo, hire migrant cane cutters who come with six-month contracts and live in the camps. Some live in the local communities and have set up families. Most of the others are single men whose wives stayed at home, often in Zambezia, Tete or Sofala as well as in the neighbouring provinces of Gaza and Inhambane. The wives occasionally pay visits, sometimes combined with trade, but most of the men have occasional sexual relations with local women, whom they meet at work or at the stalls where they sell alcohol and play music. In Taninga, some of the younger women take the initiative at the end of the month, when the workers are paid, to meet with men in the camp.

In these occasional sexual encounters, there is a high risk of contracting sexually transmitted infections, and, most seriously, HIV/AIDS. Transmission goes in both directions. Manhiça and Magude have long histories of emigration and both have a high HIV incidence. The CISM recently carried out a study on HIV prevalence in its area of demographic surveillance in Manhiça district and found an overall rate of 39.9% in the population aged 18 and above. For women, the overall prevalence was higher, at 43.1% (González et. al 2012).

The current approach to HIV/AIDS in Mozambique continues to stress access to information about HIV/AIDS and the distribution of condoms, but anti-retroviral therapy (ARVT) is also widely available at the health posts in severely affected areas, including Manhiça and Magude. Vamagogo does not have a specific HIV programme. The director told us this was considered a problem of a personal nature in which the company should not interfere.

AdX has an active HIV/AIDS prevention programme in Xinavane, linked to the local health premises and AIDS organisations. Its focus is informative rather than clinical, although it is involved in tests and counselling and occasionally intervenes in practice. At an information session in the Timanguene camp, for example, cane cutters told the programme director they would like to use condoms, but they were not available locally. He knew there was a shortage of condoms in Manhiça and Magude, and went to Maputo to bring back four large boxes of condoms for distribution.

Environmental health

Healthy air

The residents of Xinavane are used to living with cane production and do not complain of the nauseating smell and the smoke from the mill. Since the cane fields border directly on housing areas in Xinavane, the dry-season winds carry dust into the communities, causing conjunctivitis and skin irritation. Aerial spraying of the mature cane, to stop continued growth before it is cut, sometimes misses the target and damages other plants and small animals.

Burning the cane is a cultivation practice with long-term consequences. The fields are burnt even before the harvest to facilitate the cutting, clearing the fields of snakes and ticks. The burning also allows the management to control the optimum height of the sugar, corresponding to the capacity of the mill. Workers and management are thus united about burning the cane. When the cane is burned, the wind blows clouds of ashes which rain down as detritus over long distances. There is substantial research in Brazil into the relationship between burning the cane and respiratory problems, particularly asthma attacks, in the nearby areas (Arbex et. al 2007; Cançado et. al 2006; Nicolella & Belluzzo 2011).

Soil fertility

Although burning the cane is associated with large harvests in the short term, it leads to soil exhaustion in the long term. There are also limits to the amounts of fertiliser and insecticide which the soils can absorb without damage (Davies 1998; Mahadevan 2009). Continual cultivation for most of the 20th century in Xinavane is partly driving the expansion of AdX into new areas. There are experimental crops which filter the damaging chemicals from the soils, but, according to the director of Vamagogo, the results obtained are limited.

Conclusion

Job creation and income generation are among the important ways in which sugar production can affect rural well-being, but they are not the only ones. The production process itself, the way in which the work is organised, and the manner in which the land, water and air are used, also affect well-being. The objective of this paper was to show what these relationships are in the case of sugar-cane production in the areas of influence of Açucareira de Xinavane.

The long-term impact of the expansion of sugar production on well-being in the AdX area has not yet been determined. It will depend in part on the movement of prices on international markets and changes in the regional labour force and markets for the products. But it will also depend on what will be done in terms of governance and political action locally. AdX is part of a multinational company, Tongaat Hulett, with considerable economic importance in Mozambique and more broadly in the region. Integrated local protests about wages and the incomes of producers could threaten the profitability of the company, but, without linking such protests to provincial and national networks through organisations such as SINTIA or UNAC, it would be difficult for them to have a long-term impact on how sugar production is organised. During this research, we did not find local groups concerned with the other aspects of well-being raised in this paper: access to irrigable land for other kinds of productive activities besides sugar; the health conditions of the sugar workers; and long-term environmental health, particularly the reduced availability of water and air, and water and soil pollution. Regulating these aspects currently depends on the capacity and responsibility of the government, particularly on the local presence of the health and labour ministries, and of the district administration. Although health officials are very active locally, their main task is curative medicine and they have limited time for public-health programmes of prevention and inspection. The Ministry of Labour focuses on the expansion of contributions to social security, but it does not have local delegates involved in monitoring questions of occupational health. The local administrators are generally aware of health and environmental issues, but they also depend on contributions from AdX for special expenditure. Influencing the impact of AdX on the well-being of the workers and of the communities thus depends on the links between the local groups and the national political institutions.

The AdX management takes pride in its dynamising function in the Xinavane area. The recovery and expansion of sugar production has led to increased employment, not only of agricultural workers, but also in the mill, and in construction and transport. It has improved the rural roads, and built schools and health posts in the areas of its operations. However, if we consider the four areas

of impact discussed in this paper, there are strong reasons for questioning whether the expansion and consolidation of the production of a sugar-cane monoculture in the Incomati Valley can continue bringing rapid improvements in the well-being of workers and households in these rural communities.

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RURAL LABOUR MARKETS (RLMS): WHY ARE THEY NEGLECTED AND WHAT ARE THE IMPLICATIONS FOR THE PRODUCTIVE STRUCTURE IN MOZAMBIQUE?¹

Rosimina Ali

Introduction

The rural areas of Mozambique are still home to the majority (about 70%) of the country's total population.² They record the highest levels of monetary poverty in the country, with a trend that has been on the increase (from 55.3% in 2002/2003 to 56.9% in 2008/2009) (INE 2009; GoM 2011).

There is now an interest in the question of rural labour markets (RLMs) after long periods when they were regarded as absent from the dynamics of employment, accumulation and poverty in Africa. However, the way in which this question has been conventionally analysed in Mozambique has proved too limited for a coherent approach.

The relevance of a deeper analysis of the patterns and dynamics of labour markets is enhanced when we consider that the workforce is not a simple asset, and that labour markets are central in the productive structure and system of accumulation. This, among other reasons, is because of the linkages they stimulate between different agents and activities in the economy in specific socio-economic and structural contexts.

¹ This paper is based on a more general analysis developed and discussed in the text of Ali 2013.

² According to the 2007 population census, the total Mozambican population is 20 632 434 – INE 2009.

From an analysis of the current debate and of the literature on the prevailing forms of labour in the rural areas of Mozambique, one notes a contradiction concerning the importance of wage labour. On the one hand, in the conventional analysis, resting on a dualist perspective, the incidence of rural wage labour is regarded as marginal, reflecting the assumption that the countryside is dominated by the subsistence-oriented production of small peasants dependent on the labour force of household members who do not participate systematically in the labour market. Underlying this vision are public policy documents in which much of the analysis is based on data from large-scale official surveys.

On the other hand, independent studies show that rural wage labour, often taking temporary forms (casual and seasonal work) and under differentiated, multiple and precarious conditions, is predominant and relevant in the Mozambican rural areas. Most of this evidence is supported by field studies and/or by independent statistics.

Hence it seems crucial to investigate this contradiction in order to understand what is really happening.

It is argued that the method of analysis (analytical approach and the method of data collection and analysis) underlying distinctive approaches may make it possible (or not) to understand real rural patterns, where specific forms of labour happen and are developed. From a perspective of the system of accumulation and its link with social reproduction, it is argued that this understanding may have implications for the development of the productive base, of the dynamics of accumulation and of poverty in Mozambique.

The paper is organised into five sections. Following this introductory note, the second section analyses the evidence on RLMs in Mozambique, and particularly on their importance. The third section reflects on why there are gaps in the evidence on RLMs. The fourth section discusses the implications of the negligence of the RLMs for the productive structure in Mozambique, and the last section deals with the conclusions.

A look at the evidence on the RLM in Mozambique

The way in which information is gathered and handled can influence the understanding of real dynamics, such as the incidence and the relevance (or not) of rural wage labour. Two sources of information are considered: (i) large-scale official surveys, and (ii) data from field studies and from the statistics of independent studies. The first source of information indicates that the incidence of wage labour is marginal and is not relevant in the rural areas of Mozambique, while the second

source points towards the predominance and importance of various forms of rural wage labour (mainly undertaken under temporary conditions) in Mozambique.

What do the official statistics show?

According to a series of official statistics which collects information on rural patterns and dynamics, including characteristics of employment, the main economic activity of the majority of the rural EAP³ is agriculture, as shown in Table 1. The rest of the rural EAP (a minority) is shown as linked to another ‘main activity’ such as services, industry, transport, construction, trade or others.

Table 1: Percentage of the EAP with agriculture as its main occupation in the rural areas of Mozambique

Official survey	% EAP with agriculture as its main occupation in the rural areas
IAF 2002/2003	93%
IFTRAB 2004/2005	93%
IOF 2008/2009	94%
Census 2007	89%
1st quarter INCAF 2012/2013	88%

Source: INE, various surveys and census

Information on employment in Mozambique has generally been captured from some modules included in the official surveys, particularly the IAF⁴, the IOF⁵ and the INCAF⁶, given the lack of a continuous official survey focused on characteristics of employment and making it possible to analyse the patterns and trends associated with the labour market. The survey on the labour force, IFTRAB⁷ 2004/2005, is the only one that exists. At national level, the estimates of IFTRAB 2004/2005 show that the majority of the EAP undertake work for their own account and as unpaid household labour (62% and 25%, respectively), and that only about 13% are waged. In regional terms, the south of the country shows more of the EAP involved in wage labour (27%) than the centre (10%) or the north (8%). This figure for the south of the country may reflect the fact that, for more than a century, the dominant source of employment in this region has been migrant labour to South Africa.

As for the rural areas of the country, the official surveys of IAF, IFTRAB, IOF and INCAF, which are, inter alia, conventionally used to analyse dynamics of rural employment, reflect a similar picture with regard to the occupational situation,

3 Economically active population (15years old and above); 87% in total and 94% in the rural areas – INE 2011.

4 Household survey.

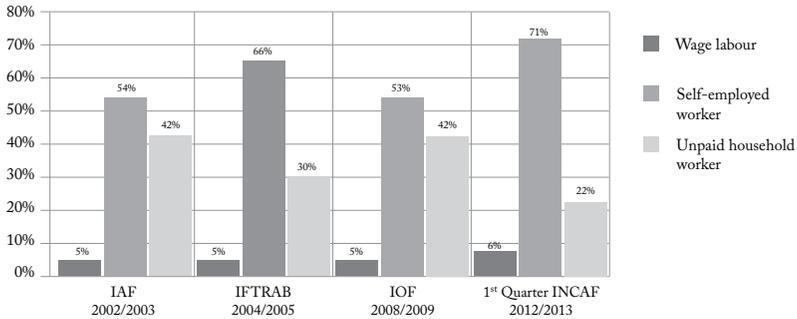
5 Household budget survey.

6 Continuous household survey.

7 Integrated labour force survey.

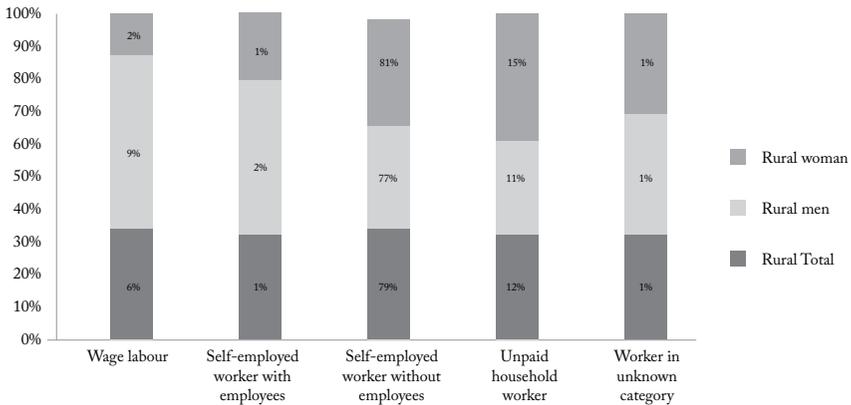
where the incidence of wage labour is minimal (only about 5%) (INE 2003, 2006, 2011, 2013). This wage labour is indicated as of little importance for most of the rural population, which, according to these estimates, has as its dominant forms of work self-employment (mostly in agriculture) and unpaid household labour (see the graph in Figure 1).

Figure 1: Percentage distribution of the EAP by occupational situation in rural areas of Mozambique



Source: INE, various surveys

Figure 2: Percentage distribution of the EAP by occupational situation in the rural areas of Mozambique - 2007 census

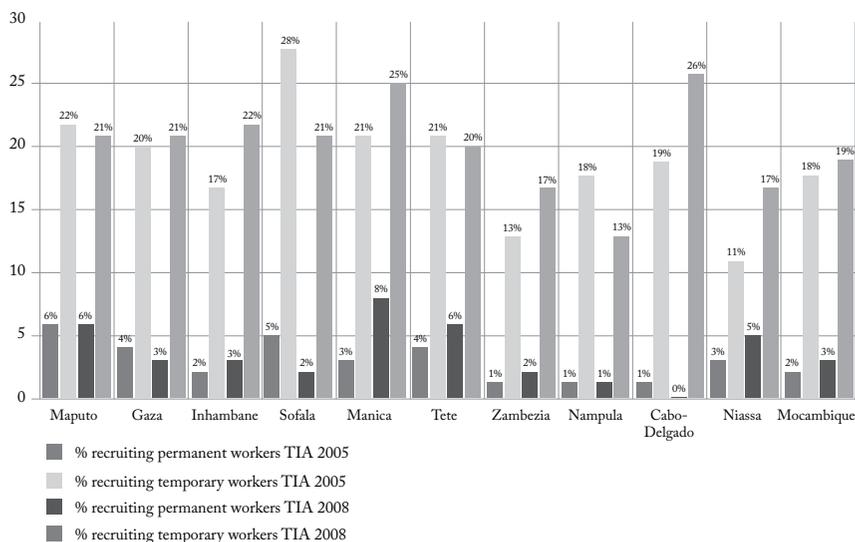


Source: Author's estimates from 2007 census data; INE 2009

In addition, the 2007 population census suggests that wage labour is uncommon among the majority of the rural population, which is shown as either self-employed without employing anyone else and/or comprises unpaid family workers. The small proportion of the EAP in wage labour consists mostly of men.

Women dominate the forms of self-employment without employees and unpaid family labour (see the graph in Figure 2) (INE 2009).

Figure 3: Recruitment of wage labour by small and medium farm holdings (SMFs) in Mozambique – TIA 2005 and TIA 2008



Source: Author's estimates from TIA 2005 and TIA 2006 databases

Compared with the official surveys mentioned above, the TIA⁸ shows a broader incidence of the recruitment of the workforce, although the percentage of farmholdings (small, medium and large) which hire labour is marginal. Small and medium farms account for the majority of farms in the country. The data from TIA 2002 show that about 40% of the employers on large farms recruit temporary wage labour (in addition to those workers hired full-time). Small and medium farms recruit temporary wage workers (18% on the small and 42% on the medium farms) and permanent workers (3% in the case of the small farms, and 31% for the medium ones (Massingarella, Nhate & Oya 2005). The data from TIA 2005 and TIA 2008 show that, both at national level and when disaggregated by provinces, there is a use of wage labour (both permanent/full-time and temporary) which is recruited outside of the households for agricultural and livestock activities (INE 2005, 2008). However, there is a differentiation by provinces and in the forms of recruitment where the temporary forms of labour are those most recruited (see the graph in Figure 3).

⁸ The TIA (National Agricultural Household Survey) is an agricultural and livestock survey with employment modules. It also gathers information on employers (large, medium and small farms).

Hence, the picture from this range of evidence from the official statistics reflects the conventional approach or method of analysis which points to a rural subsistence economy in which most of the population has little resort to wage labour and where self-employment (normally in agriculture) and unpaid household work are predominant. These estimates may reflect that employment patterns are hidden, either because they are not predominant (with the influence of the method of analysis) or because of limited regional disaggregation, or even because of possible errors of measurement that inhibit the quality of the data, which results in underestimating them.

In this panorama, rural households seem to be treated as if they were a homogenous, isolated and static group, with little stratification. However, some contradictions and questions emerge. Is there homogeneity in the characteristics of rural households and in the activities undertaken by them in the context of different regional accumulation pressures and dynamics? Is it realistic to think that most of the rural population are simply peasants? Is it possible to develop agricultural activity necessarily relying only on household labour? How have these rural households obtained their financial resources? Does this section of the population produce all that it consumes? Does the mere involvement and dependence on subsistence agriculture as suggested make it possible to cover expenditure on basic non-food services, such as health and education?

What do the independent studies and statistics show?

The evidence from a range of independent field studies and statistics contrasts with the official statistics presented in showing that RLMs are prevalent, diverse and crucial in the context of the dominant mode of accumulation and in the livelihoods of many Mozambican rural households.

The rural economy is organically and structurally linked to the national and regional labour markets. Labour markets are structurally formed, reproduced and transformed in a differentiated and complex manner, depending on the specific context in which different socio-economic relations interact (Fine 1998). The rural areas of the Mozambican economy seem to be the basis of capital accumulation in the country. Historically, the rationality of the production process in Africa was linked to the structural processes of capital accumulation which are associated with proletarianisation (Sender & Smith 1986; O'Laughlin 2001). In the colonial period, the dominant mode of accumulation rested on the expropriation of the peasantry (mainly the poor and medium peasants) on whom depended much of the country's exports of surplus cash crops (such as tobacco, cotton, sugar, tea, sisal, and cashew, among others). This peasantry provided a cheap workforce and allowed

the reproduction of the workforce achieved below the social cost of reproduction in a context of differentiated regional patterns (in the south as a reserve of labour for the South African mines, in the centre, dedicated to the plantation economy, and in the north, as a producer of commodities) (Wuyts 1978). Family agriculture and wage labour finance each other mutually, so that, given the dependence on monetary income for the consolidation of the peasantry, it supported the costs of its own reproduction. This strong dependence on the pattern of accumulation among the peasantry in Mozambique, acquired in the colonial period with weak internal linkages (as an example, the Mozambican economy specialised in the production of unprocessed primary commodities for export), and the mode of social organisation of production and work of a fragmented group of peasants seem to have been maintained after independence.

Since the late 1990s and up until now, as shown by Castel-Branco (2010), the extractive nature of the pattern of accumulation of the Mozambican economy was strengthened in a context of exporting primary commodities with little processing, of the appearance of mega-projects with investments directed towards extractive activities and infrastructures linked to these activities with few linkages in the economy (not forgetting the lack of fiscal linkages), and of the lack of connection with the productive base. The Mozambican economy is an extractive economy where investment is concentrated in productive activities, services and infrastructures that are of an extractive nature, as shown by Castel-Branco (2010). There is an expansion of the concentration of industrial production around the export of primary commodities with little processing (such as coal, timber, ginned cotton, sisal, natural gas, leaf tea, unrefined sugar, tobacco, unprocessed cashew nuts, prawns, hydroelectric power, aluminium) and a high dependence on the consumption of imported processed goods.

This fact seems inconsistent with the idea of a rural economy dependent on subsistence family agriculture, but consistent with the dominant pattern of accumulation in Mozambique, in that households seem incapable of producing a great part of what they need for their subsistence (such as cooking oil, salt, kerosene, clothing, bicycles and cement).

Most rural households have diversified livelihoods and are involved in a multiplicity of activities, including wage labour, in order to deal with day-to-day consumption, build an investment fund, and respond to shocks.

Some academics point out that, historically, monetary wage earnings, apart from meeting subsistence needs, expenditure on basic social services (such as health and education) and finance for building a house, for example, are an important basis for investment in household production through acquiring means of production (pumps and water tanks, agricultural tools, etc.) and can allow

resources for food production to be released to cover possible periods of scarcity and/or to sell in these periods, instead of depending on their current consumption (O’Laughlin 1981; Castel-Branco 1983a, 1983b). Similarly, wage earnings in kind can allow the ‘release’ of peasant production for the market.

Furthermore, wage funds can allow a basis of accumulation to prevent shocks such as: breaks in household sustenance (funerals, illness, school fees and other unexpected items of expenditure), market ruptures, an increase in prices of inputs or transport, wage funds to assist as a source of investment in alternative activities, adjustment to local crises or conflicts over resources, among other shocks. The explanation underlying this analytical method seems consistent with the reality of some vulnerable Mozambican population members who are displaced to less productive land as a result of competition for water and land with projects of agro-business, mining, tourism, etc., and need funds to obtain food commercially, while the possibility of alternative sources of income are not consolidated (Castel-Branco & Mandlate 2012).

The research by Cramer, Oya and Sender (2008), based on a wide ranging survey of RLMs (MRLS 2002/2003⁹) in the central and northern provinces (Manica, Nampula and Zambezia) provides evidence for heterogeneous livelihoods and a diversity of occupations linked to wage labour (mostly irregular forms) of many rural households (particularly the poorest strata). This study shows that the rural individuals interviewed were working in a variety of wage labour occupations, including small plantations, market shops, bars, market stalls and large plantations of crops for export (which employ thousands of temporary workers).

The need to be involved in wage labour and the supply of labour do not in themselves guarantee the demand for wage labour. In the search for job opportunities in more dynamic RLMs, some population groups find themselves obliged to migrate (internally – between provinces or regions – or internationally) (Standing, Sender & Weeks 1996). For example, MRLS 2002/2003 shows cases of the need for mobility of some household members for seasonal work on medium and large farms where harvesting or weeding is taking place. A further example is the case of the sugar-cane cutters in the Xinavane Sugar Company, many of whom come from provinces in the centre of the country (Manica, Zambezia, Sofala and Tete) and who travel, some of them out of despair, from their places of origin during the cane-cutting season, returning at the end of the campaign (O’Laughlin & Ibraimo 2013). Most of these migrants are young men, often with some secondary education, who are unable to find jobs locally.

9 This research was based on a combination of qualitative and quantitative methods.

In the context of the multiplicity of activities among rural households, there is evidence for the influence of a varied and differentiated basis of different household members. For example, the research of O’Laughlin and Ibraimo (2013) indicates that the women and children, in households without any source of income linked to wage labour in the Xinavane Sugar Company, worked locally for neighbours and relatives in exchange for remuneration in kind, such as food. From this study, one can also note the dependence of some rural households (including the elderly) on remittances from migrants working in South Africa. Furthermore, some women and older children in rural households at the Machubo administrative post, in the south of the country, where the head of the household is a migrant worker in South Africa, find themselves undertaking seasonal work. However, there are heterogeneous opportunities between them and those wives of wage workers who are working in Maputo (Castel-Branco 1983b). The elderly and some adolescents who have greater difficulties in travelling to the plantations, according to a research paper on ‘tea plantations and peasant economy in Upper Zambezia’ (entitled ‘Plantações de chá e economia camponesa na Alta Zambézia’), are involved in casual wage labour (known as ‘ganho-ganho’) within the family agriculture among peasants of the region, in exchange for remuneration in cash or kind (school exercise books, food, kerosene, etc.) (CEA 1982). In addition, Sender and Oya (2007), in their research on rural employment markets in the centre and north of the country, indicate a heavy weight of divorced/separated women or widows in waged agricultural labour, a fact which is underestimated in the official statistics. The life stories of these women show that wage labour, even in temporary or irregular forms, is a vital resource for them. They are often in despair at having to sustain their children and themselves.

The emergence of rural wage labour has been associated with socio-economic processes of differentiation and with different regional dynamics of accumulation, and, consequently, the emergence of fragmented groups and unequal opportunities between regions and over time. The households are structurally differentiated and, as Oya (2010a) shows, the less poor groups generally contain a larger number of members with access to more regular jobs and more stable sources of income than the poorer strata. Rural households are not only differentiated, but they also vary over time, and from region to region. The various phases of the development of the household may, on the one hand, neglect its importance, but, on the other, allow (or not) a fund of accumulation for other household members. For example, over time, households may change due to migration, which may have a different influence on investments (in production or other areas) by the rural households during the absence of the migrant and on his definitive return.

From the analysis of the various sources of information presented in this section, it seems that forms of rural wage labour are predominant and important in the dominant social system of accumulation in Mozambique, although they have been neglected in the framework of conventional analysis and by official statistics. The conventional approach and methodology are questioned when we consider a contradiction about the real patterns and dynamics which this approach does not explain.

Why have RLMs been neglected in Mozambique?

Methodological problems are suspected because of the neglect of patterns of RLMs in the conventional analytical framework and by the official statistics (IFTRAB, IAF, IOF, INCAF, the population census and TIA)¹⁰.

The analytical method and data-collection methodology may affect both the statistics and the research, calling into question the analysis of the links between RLMs, the productive base, poverty and development. The analytical framework on which the survey used rests may influence the type of questions asked and may limit the response that this information can supply to other questions. For example, the evidence analysed seems to indicate a link between the analytical approach and the method of data collection. The official data seem to reflect the method of conventional analysis resting on a dualist vision of a rural subsistence economy where the incidence of rural wage labour (even temporary) is marginal; this characteristic is inconsistent with the observed reality. The independent studies and statistics, by pursuing the research into RLMs in a broad context of the social system of accumulation, show a predominance of heterogeneous forms of rural wage labour (mainly irregular forms), often under precarious conditions which are consistent with the extractive nature of the dominant accumulation pattern.

There is a lack of a continuous survey focused on broad patterns and dynamics of RLMs in Mozambique. Since IFTRAB 2004/2005 is the only survey in existence focused on characteristics of employment in Mozambique, it does not allow us to analyse changes. It also possesses some inconsistencies in the modules of rural employment, which are too limited to study the complexity of labour dynamics.

Information on the RLMs is not captured in a broad and consistent manner in the conventional surveys and censuses. The way in which the information is treated, from the design of the surveys to interpretation, is crucial for ensuring

¹⁰ For a deeper analysis on RLM methodological data issues, see Ali 2013.

the quality of the data and the understanding of reality. An example of problems in the methodological structures is the type of research question contained in the official surveys. The research question is structured in such a way that it restricts, for example, the ‘hypothesis’ that rural households are linked to diversified RLMs; that is, only two options concerning the type of activity undertaken – ‘main or secondary activity’ – in the last seven days are included in the official surveys (and centred on the first). This may imply a poor interpretation of the question and that the majority of the respondents report only the activity of long duration which they remember and classify it as, for example, ‘work on the farm’ (usually called ‘machamba’, the local word for farm), since it was the most regular in the reference period (in the last seven days, rather than in a more inclusive period such as 12 months), although it might not be the only activity, or might be undertaken in a context of combination with irregular sources of rural wage labour.

One aspect that should be mentioned concerning problems of interpretation is the general idea or assumption about wage labour. This is often associated with regular forms of work and with the ‘formal economy’ and/or urban areas (regarded as stable), and so few people are classified as waged/paid workers, particularly in agriculture.

Asking an individual who owns his own farm (or ‘machamba’) about his ‘main occupation’, and whether he is a casual or seasonal worker, seems rather useless, since the irregular nature of this activity rarely appears as the main one.

Furthermore, the official surveys (IFTRAB, IAF, IOF, the census and TIA) suffer from some conceptual inconsistencies which compromise the quality of the data, thus leading to the neglect of rural wage labour. For example, the concept of household used could lead to bias in the data collected about RLMs. The official surveys are based on a residential concept of a household (which considers as members of the household those who have regularly slept or eaten in the residence of the household interviewed at the time of the survey). This may ignore, for example, potential members who contribute actively to household expenses, although they do not reside, or reside at irregular intervals, in the residence of the household interviewed.

Possible implications of the neglect of the RLM for the productive structure

The rural areas of the Mozambican economy seem to be the basis of capital accumulation in the country. The rural economy is organically and structurally linked to national and regional labour markets. The social organisation of

household production was historically influenced by the interests of capital. Due to a series of blockages, such as the conditions of the social reproduction of the work force, the peasantry, differentiated and with a fragile organisational structure, finds itself structurally integrated into wage labour.

The peasants, who are differentiated (poor, middle and rich), may produce food crops and cash crops for sale and for their consumption (resorting or not to hiring additional labour), but they may also offer their own labour to agricultural plantations and/or be involved in non-agricultural activities, often as wage workers, depending on their social stratum and socio-economic relationships and context.

From this perspective, some questions arise. How are the processes and relations of production, distribution and reproduction interlinked in the context of the dominant mode of accumulation? How are the dynamics of accumulation, industrialisation and proletarianisation related? What implications do they pose for the social organisation of production, for work and for the productive structure?

The development of the productive base may be compromised if the base of accumulation of rural households is overshadowed. How should the productivity of companies be addressed on the one hand, and the economic and social security of the workforce on the other? For example, if some firms desire to increase their productivity through mechanisation, what implications does the mechanisation alternative pose to the profitability of the firms themselves, taking into account that an immediate consequence of this alternative would be a reduction in the size of the workforce? Restrictions on the employment which often constitutes the basis of the accumulation, financing and survival of households may put at risk the capacity of households to acquire goods. To what extent could restrictions on the source of income of households for acquiring goods limit the demand for goods offered on the market, and imply a reduction in the number of clients for the firms?

Furthermore, the expansion of the firms may, at particular stages of their consolidation, need more labour, as, for example in the case of the boom in the mining industry. This workforce may be recruited locally or through migrant labour. One may question the pressures that this need places on the demand and supply of labour and on labour and institutional relations in terms of the availability of labour, the sustainability of forms of labour, and living and working conditions among other economic and social pressures.

A further aspect which should be mentioned and which has often been overshadowed is the influence that the type of activity, of crops and of agricultural seasons (in the case of agricultural activities) may have on differentiated RLMs and their implications for the firms. Hence it is contradictory that, for example, in the case of the production of primary commodities for export, resting on monocultures that are labour-intensive (mostly casual and seasonal labour), rural

wage labour is neglected in the framework of the conventional analysis. How is it possible to speak of monoculture, and of contract farming, and neglect the RLM? This puts pressure on organisational and institutional capacity.

Furthermore, considering the multiplicity of activities in which rural households are involved, if the non-agricultural activities, for example, prove more lucrative, and the workforce pulls out of other, alternative sources of income, including agriculture, then this activity could be prejudiced, particularly at peak periods during harvest time.

Final considerations

The study shows that several implications arise from the neglect of RLMs for the productive structure and the possibilities of accumulation in Mozambique, considering that the workforce is not a simple asset and that the labour markets are central in the productive structure and the accumulation system, *inter alia*, because of the links they stimulate between different agents and activities in the economy.

The reflection in this study challenges the conventional analysis, resting on a dualist perspective, according to which the incidence of rural wage labour is marginal, reflecting the assumption that the countryside is dominated by subsistence production by small peasants dependent on household labour which does not participate systematically in the labour market. The study indicates that family agriculture and wage labour finance each other mutually so that, given the dependence on monetary income for the consolidation of the peasantry, this supports the costs of its reproduction.

Rural labour markets in Mozambique are prevalent, complex, multiple and heterogeneous, and develop in a context of socio-economic differentiation. Wage labour exists at various levels and in various activities. There are those who are 'waged' but at the same time hire wage workers in some of their activities, those who are only 'waged', and those who only hire wage workers, depending on their socio-economic stratum, economic and social processes and relationships, as well as on the activities and livelihoods involved.

The way in which we think of and look at reality can influence efforts to analyse it, transform it and call into question development objectives. How can the productive structure, distribution, pattern of living and working, and the development of the productive base be thought about and addressed without addressing the nature of the RLMS in the broad context of the dynamics of accumulation in which they develop?

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Part 4

Public services and
development of
productive capacities

THE PRIVATE SECTOR IN THE CONTEXT OF REFORMS IN THE AGRICULTURE SECTOR IN MOZAMBIQUE: AN ANALYSIS BASED ON LOCAL EXPERIENCES

Salvador Forquilha

Introduction

As is the case with other sectors, reforms in agriculture are framed in the broader context of reforms of the state (Batley et al. 2012; Crook 2010; Kiragu, 2002; Booth 2010). In the case of Mozambique, these reforms have been under way since the late 1980s and early 1990s. Their shape became more visible with the launch of the overall public-sector reform strategy in 2001.

Indeed, although there had already been reforms in various sectors, expressed in sector policies and strategies, it was above all with the launch of the overall public-sector reform strategy that the reforms came to be more structurally associated with improving the quality of the services provided by the various sectors, based on three main aspects, namely decentralisation, involvement of the private sector, and community involvement.

This paper seeks to analyse the dynamics of the private sector in the context of sector reforms in agriculture, based on the local experiences of Ribáuè district. The aim is to question and analyse the way in which agricultural strategies and policies, expressed in the Strategic Plan for the Development of the Agricultural Sector (PEDSA) 2010 – 2019, are appropriated and implemented locally, particularly

with regard to creating a favourable environment for private sector initiatives in agriculture.

Based on fieldwork in Ribáuè¹ district, the paper argues that the weak institutionalisation of the state and the institutional incoherence weaken the effect of reforms in the agriculture sector, specifically with regard to the creation of a favourable environment for the private sector at local level. Apart from this introductory section and the conclusion, the paper is divided into two main sections. In the first, there is an analysis of the relevant aspects of state reforms, namely administrative decentralisation for the agriculture sector. In the second section, the paper discusses the dynamics of implementing these reforms and their effects in the creation of a private sector at local level.

State reforms and the agriculture sector

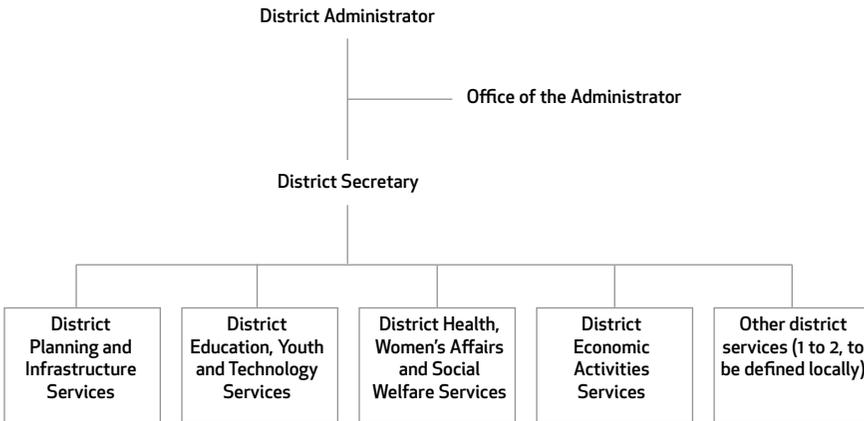
One of the most important aspects of the state reforms in Mozambique in the last 20 years is the decentralisation reform, expressed in Law 2/97 (RoM 1997) dealing with the establishment of municipalities, and in Law 8/2003 (RoM 2003), which lays down principles and norms of organisation, competencies and functions of the local state bodies at the various levels, namely provinces, districts, administrative posts and localities.

Approved and implemented in the absence of a decentralisation policy and strategy, Law 8/2003 (Ibid) became an important instrument for the structuring, institutionalisation and functioning of the state at local level, with important consequences for the various sectors, including agriculture.

Thus many sector policies and strategies came to incorporate aspects linked to decentralisation, specifically in terms of deconcentration, also known as administrative decentralisation. This was essentially for two reasons: (i) administrative decentralisation affects the organisation, competencies and functioning of the sectors; and (ii) administrative decentralisation affects the principles and norms of sector planning. It was in this context that the old district sector directorates were abolished, and, in their place, the district services, which form part of the district government, were set up.

1 The field work lasted nine weeks and was carried out between April and August 2013, under the research project on "Governance, Public Services and the State Building", undertaken by the IESE's research group on Citizenship and Governance.

Figure 1: Typical structure of the district government



Source: Decree 6/2006

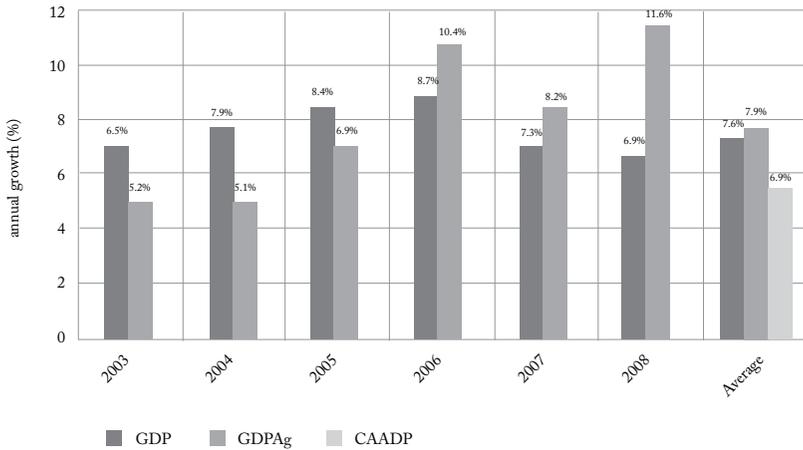
Thus, with regard to the agriculture sector, instead of the old district directorates of agriculture, the administrative decentralisation reform introduced the district economic activities services (SDAE). It is important to note that this is not a mere reproduction of the old district directorate of agriculture, in that the district economic activities services, apart from agriculture, cover other sectors such as industry and trade, tourism, fisheries, and local development. But how do these reforms affect agriculture?

Since independence, agriculture has been regarded as the base of Mozambique's development. PEDSA stresses that:

the agriculture sector is a pillar of the national economy. In 2009 it contributed 24% to the Gross Domestic Product (GDP). Furthermore, agriculture employs 90% of the female work force in the country and 70% of the male work force. This means that 80% of the country's active population is employed in the agriculture sector (MINAG 2010: 4).

The graph in Figure 2 shows the contribution of agriculture to GDP.

Figure 2: Contribution of the agricultural sector to GDP



Source: MINAG 2010

Although the administrative decentralisation reforms mentioned above are intended to make the state administrative apparatus quicker in providing services, and thus serve citizens better, their implementation has revealed constraints from the point of view of institutional functioning, in that, with the creation of the district services, the reforms are paradoxically making the state's administrative machine heavier in the districts, with consequences for the functioning of the sectors at local level. For example, in talking about the consequences of the administrative decentralisation reforms for the functioning of the agriculture sector in the districts of Nampula, an official in the Nampula Provincial Directorate stressed the following:

... Today we no longer have district directorates of agriculture ... what we have are the so-called District Economic Activities Services [SDAE]. This has brought a heavy structure into the agriculture sector at district level, in that by contracting many sectors together with agriculture, it becomes difficult to make agricultural matters flexible ... even the producers themselves, when they have agriculture-related problems, they never say we're going to the SDAE ... they still say we're going to the District Agriculture Directorate. Furthermore, in the SDAE, that staff member who used to deal only with livestock production today has to provide assistance to other areas such as fisheries ... if he was linked to crop production, now he has to attend to other matters such as industry, trade ... so it

*ends up with what we call professional distortion or professional deviation. So this ends up affecting the performance of the entire agriculture sector ...*²

But the constraints do not end here. They also concern, on the one hand, the room for manoeuvre which sector officials at provincial level have concerning implementation of activities in the districts and, on the other, institutional sector coordination, when it is a matter of intervening in sectors at district level, as a staff member of the Nampula Provincial Directorate of agriculture mentions:

*The other constraint has to do with the coordination of activities ... For example, when I have an activity in any district, I have to depend on the agenda of the district administrator ... if I want to implement properly actions stemming from the policy or strategy of my sector in a district. I depend on the administrator, because I cannot arrive in a district and call the director of SDAE to a sector meeting [of agriculture], without consulting the administrator. Which means I have to see what the administrator's priority is ... if the administrator were to say that the priority is to go with the director of SDAE to a locality, he [the director] cannot come to my meeting ... and it may even be that my meeting is much more important than the visit [of the director] to the locality. This structure does not allow much flexibility to solve problems. Likewise, if I want to introduce some innovation into the work of SDAE, for example, I have to consult the other provincial directors of the sectors represented in SDAE ... it's enough for one of them to oppose my initiative ... I'm going to have to negotiate with each of the provincial directors in order to get my initiative through. As you can see, it's a heavy bureaucracy. Furthermore, the fact is that while many sectors are concentrated in the SDAE, in practice these other sectors are not decentralising their resources in order to make the SDAE function ... they are not decentralising financial resources, much less human and material resources, which means that the entire weight ends up falling on the agriculture sector ... it's a very large overload and this has effects on the performance of the agriculture sector.*³

However, it is important to mention that, in recent years, apart from the administrative decentralisation reforms mentioned above, the agriculture sector has also been implementing sector reforms arising from the programmes, policies and strategies of the sector, such as the Agricultural Development Programme (PROAGRI) I and II, the Green Revolution Strategy, and, very recently,

² Interview with Mr EU, official of the Nampula Provincial Directorate of Agriculture, Nampula, 29 July 2013.

³ Interview with Mr EU, official of the Nampula Provincial Directorate of Agriculture, Nampula, 29 July 2013.

the Strategic Plan for the Development of the Agriculture Sector (PEDSA) 2010–2019.

As regards all these sector tools, on the one hand the relevance of the involvement of the private sector for the development of agriculture is recognised, and, on the other, so is the role of the state in establishing favourable conditions for the emergence of the private sector. In this regard, PEDSA stresses that:

the Government is engaged essentially in creating a favourable environment for private sector investment in production, processing and marketing, through infrastructures, providing incentives, improving the legal framework and providing public services with a focus on the administration and management of land and forests and environmental protection, promoting production, agricultural information, defence against plant and animal diseases, agricultural research, and building the capacity of the producers, as well as the security network in response to emergencies (MINAG 2010: viii).

PEDSA thus favours the existence of a private sector in agriculture that is more active in production and in service provision. For PEDSA, the private sector in Mozambican agriculture consists of a variety of stakeholders. Specifically, PEDSA stresses that the private sector consists of ‘the family sector producers, the associations, the emerging farmers, the commercial farmers and livestock breeders, the forestry entrepreneurs, as well as the providers of agricultural goods and services including inputs, equipment, technical assistance, financial services, processing and marketing’ (MINAG 2010: vii).

In this paper, when we talk about the local private sector, we are referring to the private stakeholders covered by the research, namely medium-sized producers (with about five to ten hectares of cultivated land), associations, and providers of processing and marketing services. At this point, the next question is: How does this series of reforms – both administrative decentralisation and sector reforms – within the framework of PEDSA affect the local private sector? This is what we shall discuss in the following section, based on the experiences of Ribáuè district, as mentioned in the introduction.

Dynamics and effects of the reforms in creating an environment for the private sector in local agriculture

As in other sectors, the implementation of reforms is a complex process and the results depend on a combination of factors, namely context, institutions and actors. This explains why there is often a difference between what is advocated and the results of reforms (Olivier de Sardan 2009). But, before presenting and discussing the dynamics and effects of the reforms on the creation of a private sector in local agriculture, let us look, albeit briefly, at the main characteristics of Ribáuè district – the place where the fieldwork was done, which is the support for this paper.

Ribáuè district

Covering an area of 6 292km², with an estimated population of 228 411 and with a population density of 36.3 inhabitants/km² (INE 2012), Ribáuè district is located in the south-western part of Nampula province, bordering on Lalaua district to the north, Murrupula, Alto Molocue and Gilé districts to the south, Murrupula, Nampula and Mecuburi districts to the east, and Malema district to the west (Ibid).

Ribáuè district is located on an important development corridor – the Nacala Corridor – and is crossed by a road linking the cities of Nampula and Cuamba, as well as the railway that connects the port of Nacala and the interior of Niassa. This railway is one of the most important economic infrastructures in Ribáuè district, in that it is the main means of transport allowing the circulation of people and goods, and particularly the movement of agricultural production. Because of this, the above-mentioned railway is an essential element in the local economy.

Ribáuè has an economy based on agriculture, oriented mainly towards cash crops (tobacco, sunflower, cotton, soya and sesame) and food crops (maize, cassava, groundnuts, sorghum, rice, beans, potatoes and vegetables). The district has enormous agricultural potential. Data from the second agricultural and livestock census of 2010/2011 indicate that, in 2010, the district had 37 961 farms, occupying a total cultivated area of 49 003ha, as Tables 1 and 2 show.

Table 1: Number of farms by type: cultivated areas in the district and total for the province, 2010

	District		Province		District / Province %	
	No. of farms	Cultivated area	No. of farms	Cultivated area	No. of farms	Cultivated area
Small and medium	37 960	48 999	829 607	1 018 540	4.6	4.8
Large	1	4	35	19 208	2.9	0.0
Total	37 961	49 003	829 642	1 037 748	4.6	4.7

Table 2: Number of farms with basic food crops, and % of the total, 2010

	District		Province		District / Province %	
	No. of farms	Cultivated area	No. of farms	Cultivated area	No. of farms	Cultivated area
Small and medium	35 459	48 999	763 867	1 018 540	4.6	4.6
Large	1	4	18	19 208	5.6	0.0
Total	35 460	49 003	763 885	1 037 748	4.6	4.7

Source: INE 2012

Apart from agriculture, there is also a very embryonic local industrial sector, consisting basically of cotton ginning and a pressing factory, a mineral-water processing plant, 154 flour mills, 26 carpentry workshops and 5 bakeries (Ribáuè District Government 2014). According to the data from the district government, the district trading network has 14 retail establishments and an ever-growing informal sector, which guarantees the supply of basic goods to the villages and localities most distant from the headquarters of the administrative posts. Ribáuè has three administrative posts: Ribáuè–sede, Cunle and Iapala. In the past, the headquarters of the Iapala administrative post was an economically important town for Ribáuè district, since it has a railway complex that guaranteed jobs for some of the residents of the town and its outskirts.

The Civil War destroyed a significant part of the facilities of the railway complex, considerably reducing railway activity, and throwing almost all the workers into unemployment, with implications from the point of view of the income of local households. Thus the few people who are still in formal employment (permanent or seasonal) not only in Iapala but also in the other two administrative posts, namely Ribáuè–sede and Cunle, are connected above all to the companies which promote cash crops, particularly tobacco, sesame and cotton, as well as the local public sector.

As mentioned above, the various policy and strategy instruments of the agricultural sector stress that the state has an extremely important role in creating conditions for the emergence and development of the private sector. The leaders of the sector are convinced of this idea not only at provincial level, but also in the district itself. Indeed, according to the speeches of agricultural sector authorities interviewed for this research, the private sector is already beginning to obtain a certain visibility in the production and marketing of inputs. For the agriculture authorities, this fact also results from the role that the state plays in creating a favourable environment for the private sector. In the words of one of the leaders of the sector:

The private sector is now beginning little by little to have a visible role, for example in the production of inputs ... the State is empowering the private sector

to produce seeds locally. Agricultural inputs are being sold, with the involvement of the private sector.⁴ Furthermore, we note that the private sector, based on its own production, is supplying the market with a great diversity of products ...⁵

Although PEDSA, when it talks about the role of the state in creating a favourable environment for the private sector, mentions, above all, infrastructure, improvements in the legal framework and public services, there are cases where this role is limited to providing incentives so that a particular company sets itself up and begins to produce in a particular district. This is the case, for example, with the company Corredor-Agro Lda, in Ribáuè district:

The company Corredor-Agro Lda arrived in Ribáuè as the result of a conversation with the provincial directorate of agriculture. The owners of the company came to see the land conditions here in Ribáuè. Our [SDAE] role was to establish conditions for locating the areas necessary for its activity, facilitate links with the communities, the producers, the forums and associations, to mediate eventual conflicts with the communities, etc. ...⁶

But, while it is true that the role of the state is relatively visible in terms of incentives for companies which wish to set up locally, as the Ribáuè case mentioned above shows, it is also true that this role is less visible in terms of making available infrastructure and public services in order to facilitate the involvement of the private sector, particularly the associations of producers and the medium-sized producers. To better understand this reality, let us look at two cases which show how little the state is visible in its role of creating the environment for the functioning of the private sector in local agriculture.

The first case is the project to grow cassava to produce the beer known as 'Impala'. Located in Namigonha, about 12km from Ribáuè town, this project essentially involves four stakeholders, namely the cassava producers, the International Fertilizer Development Center (IFDC), the company DADTCO (the owner of the cassava-processing unit) and the company Cervejas de Moçambique (the owner of the 'Impala' brewery). The cassava is grown by producers organised into associations who receive technical assistance from the IFDC and sell their crops to DADTCO. After buying the cassava from the producers and processing it, DADTCO sells the processed cassava to Cervejas de Moçambique, as Figure

4 Ribáuè district, for example, has five traders who sell the agricultural inputs. According to the interviewees, the agricultural inputs are sold at market prices. The SDAE regularly visits these traders to guarantee that the agricultural inputs sold are of good quality.

5 Interview with Mr. E. U., official of the Nampula Provincial Directorate of Agriculture, Nampula, 29 July 2013.

6 Interview with Mr. O. A., Official of the Ribáuè District Economic Activities Services, 23 April 2013.

3 shows. In the focus-group session organised for this research, the associated producers insistently mentioned that the district government was giving no support to the producers. Indeed, even in resolving conflicts arising from the partnerships which the producers have with DADTCO and IFDC, particularly concerning the sales price for cassava, the producers complain that the state is absent in the entire cassava-production and marketing process, as the following extract from one of their interventions shows:

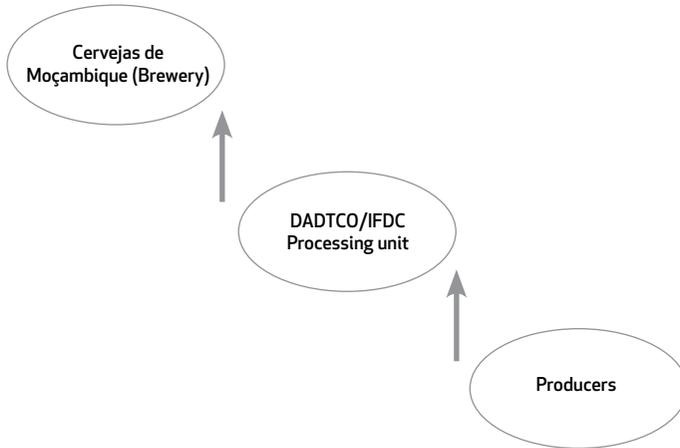
The State is absent from our activities as cassava producers ... we are the ones who suffer. On the part of the State [SDAE], the person who should look at questions of agriculture has had no contact with us. When this cassava production project began, the company which buys our cassava [DADTCO] told us that it would buy our cassava at 5 meticaís per kilo. But today this isn't what happens ... we are selling at 1.5 meticaís per kilo and the State says nothing. We have already brought our concerns to the notice of the State, but we have had no reaction. Furthermore, we have no technical assistance from the State ... no extensionist from the Government has ever come here ... the association would like there to be decent transport here so that we can increase the number of hectares we work, but we don't have it⁷

As for technical assistance in the shape of agrarian extension, it is important to note that the Ribáuè district government has an insignificant number of extensionists. Indeed, according to the data provided by SDAE, of the 61 extensionists which the district had in 2012, only seven worked for the district government. The rest are from the companies and non-governmental organisations (NGOs) that operate in the district. Apart from their small number, the state extensionists in Ribáuè do not possess the material resources to provide adequate technical assistance for the producers. For example, the Iapala administrative post, which is extremely rich in agricultural production, has just one state extensionist, who does not possess any computer equipment, much less any means of transport. In these circumstances, in order to go into the countryside to provide technical assistance for the producers, the extensionist depends on somebody making transport available – the head of the administrative post, one of the government's partners, or even a visitor. Sometimes, the extensionist uses his personal bicycle to visit producers who live a long way from the headquarters of the administrative post. Furthermore, due to the lack of computer equipment, the agricultural information gathered is recorded

⁷ Intervention by A. N., Chairperson of the association of cassava producers of Namigonha, in the focus group discussion, Ribáuè, 18 April 2013.

manually in his personal notebook, and only much later is it registered on the computers at the SDAE offices, which are about 40km away.

Figure 3: The cassava business in Namigonha locality – from the producers to the brewery of Cervejas de Moçambique



Source: Drawn up by the author based on information obtained from the interviews

The second case, which shows how little visibility the state has in its role of creating a favourable environment for the performance of the private sector in agriculture, is the marketing of cassava along the Nacala Corridor, particularly the purchases of cassava in Ribáuè district for later sale in Nampula and Nacala cities. As mentioned above, Ribáuè district has great agricultural potential and is one of the largest producers of cassava in Nampula province. Cassava is produced in practically the entire district, but particularly in the localities of Namigonha and Reane. In the case of Reane, the cassava grown by the local producers has been sold along the Nacala Corridor. The sellers are youths, mostly from Nampula city, who spend their time buying and selling cassava. Some of these youths have been doing this for several years, as shown in the following extract from an interview:

... I buy cassava here in Reane and I resell it in Nampula. I've been doing this for many years. I don't have my own transport. Normally I come from Nampula by train ... when I arrive here I look for my men who work with me. There are about three or four of them. They are fixed men. Their work is to go to the villages in Reane, which are about 15 km from the train station where we meet, to buy the cassava. They go ... when they come back they've already bought and are carrying the cassava on their heads. In the villages we buy the cassava in bundles ... each bundle has 5 to 8 pieces of cassava and we buy it for 10 meticais. After

buying the cassava, we arrange it in sacks and wait for the train, which is a daily service. Then we put our cassava on the train, destined for Nampula city. When we arrive in the city, for each sack we pay 40 meticaïs to the Northern Development Corridor (CDN), the company which owns the trains which circulate on this line. In Nampula city, the cassava is sold immediately because there's a lot of demand ... we sell it for 250 – 300 meticaïs per sack. Some people buy our cassava for immediate consumption, others buy our cassava and resell it in Nacala, Ilha de Moçambique ... But we don't always manage to put our cassava on the train every day. There are days when the driver refuses to carry our cassava in the train. When that happens, we have large losses, because we only manage to put the cassava on the train one or two days later and it's no longer fresh when it reaches Nampula city ... In these cases, we resell the cassava at low prices. Furthermore, CDN has decided to reduce the number of stops along the line, and our stop (MUSA) is one of those that are going to close ... This will be a great blow to our business⁸

Tomatoes and other vegetables produced in Reane locality are also marketed in the circumstances described above. By the time this research was conducted, the train was the most used (indeed the only) means of transport to move cassava and other agricultural products from Reane to Nampula city. There are no access roads to the interior of Ribáuè district in good enough condition to allow the circulation of vehicles carrying the agricultural produce.

In this context, as it can be noted from the case of Ribáuè, apart from the weak capacity of the state in providing technical assistance to the producers, expressed in the defective state of the agricultural extension network, there is no adequate infrastructure, namely roads and silos, to encourage private initiatives in agricultural marketing, a scenario which contrasts with what is advocated in the sector's main policy and strategic documents, such as the Agricultural Policy and Implementation Strategy (PAEI, promulgated in 1996), the Green Revolution Strategy, PEDSA 2010–2019, etc.

A further aspect which affects the private sector in agriculture is access to land. Although the country has legislation on land, and although the agriculture sector stresses that access to land is crucial to increase productive capacity and improve agricultural productivity, the state is not able, in all districts, to offer services to legalise land tenure. In the case of Nampula province, for example, according to information obtained from the Provincial Geography and Land Registration Services, currently only three districts, namely Malema, Moma and Monapo,

⁸ Interview with Mr AM, a buyer and reseller of cassava, Ribáuè, 3 July 2013.

enjoy the conditions for local land management. Obviously this situation poses great challenges for private investment in agriculture in districts which do not possess local land management capacity and have to rely on direct support from technical staff of the Provincial Geography and Land Registration Services, based in Nampula city, as one staff member mentions:

... When there are investors interested in investing in agriculture in a district which doesn't have the capacity to deal with land questions locally, the first thing these investors should do is, even so, contact the Government of the district in question. Then the district administrator should take the matter seriously and deal with it in his Government. Then the administrator contacts the Provincial Geography and Land Registration Services to request support. In this case, we send staff from Nampula city to give technical assistance to the district in matters of georeferencing ... We record the information in the register⁹

Consequently, the experience from Ribáuè shows that the role reserved for the state in the creation of a favourable environment for the private sector is marked by defective provision of services, namely in agrarian extension, in land registration services, in the development of infrastructure (roads, silos), and in access to market. Indeed, these experiences are well known and confirm part of the diagnosis on the performance of the agriculture sector presented by PEDSA in the following terms:

defective post-harvest handling, insufficient application of product quality norms, lack of access to credit for marketing, poor availability of information on markets and prices, the lack of extension services for marketing, and absence of strong peasant associations, inhibit the establishment of closer and more equitable linkages between farmers and the markets, and the effective functioning of the markets of inputs and agricultural produce ... (MINAG 2010: 21).

In this context, although the agriculture sector is undergoing important reforms, expressed in programmes, policies and strategies, the effects of these reforms are weakened essentially by two interrelated factors: (i) the weak institutionalisation of the state at local level, resulting, on the one hand, from a reform of local state bodies which does not allow flexible performance of the sectors and, on the other, insignificant investment in human, material and financial resources in the places where agricultural production really happens; (ii) institutional incoherence

⁹ Interview with Mr CMS, official of the Nampula Provincial Geography and Land Registration Services, Nampula, 30 July 2013.

shown, on the one hand, in the lack of consistent prioritisation in the allocation of resources, in accordance with what is advocated in the sector's programmes, policies and strategies and, on the other, in the lack of a holistic approach to the challenges of agriculture which would make it possible to mobilise complementary actions from other sectors.

Conclusion

Although the various policy and strategy documents of the agriculture sector reserve a central role for the state in creating an environment for the private sector, practice shows that this role has been overshadowed by the weak capacity of the state to provide services, namely agrarian extension, land registration, and the development of infrastructures within the framework of agricultural marketing and access to the market for the producers.

The experiences of Ribáuè district discussed in this paper suggest that the effects of the agriculture sector reforms expressed in the sector policies and strategies with regard to the issue of the state creating a favourable environment for the local private sector, have been undermined. This is due essentially to two interrelated factors: the weak institutionalisation of the state and institutional incoherence.

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GOVERNANCE AND PUBLIC SERVICES AT DISTRICT LEVEL: THE INVOLVEMENT OF THE PRIVATE SECTOR

Salvador Forquilha

Introduction

The involvement of the private sector in the provision of public services is one of the outstanding aspects of the public-sector reform programmes in sub-Saharan Africa, particularly as from the second half of the 1990s. Indeed, after the results from the first generation of public-sector reforms (essentially structural-adjustment plans focused on the restructuring of public services) proved not to be very visible, the private sector came to be ever more associated with the co-production of public services (Kiragu 2002; Crook 2010).

In the case of Mozambique, the document on the Overall Public Sector Reform Programme, in dealing with public-services delivery, stresses the following:

public services provided no longer by units directly administered by the central Government, but by units of the local State administration, municipalities, partnerships between the public and private sectors or civil society organisations, the private sector or public institutes ... (CIRES 2001: 23).

It was in this context that policy documents and strategies of the various sectors, particularly education, health, water and agriculture, came increasingly to insist on the role of the private sector in public-services delivery.

But, while on the one hand the question of the involvement of the private sector in the production of public services is clear in the main sector policy and strategy documents, on the other hand this involvement is not so linear, in that, in many cases, particularly in the districts, the private sector is still incipient. Thus, analysing the involvement of the private sector in the production of public services in the districts is to ask about the conditions leading to its emergence and development as a stakeholder in development, which, in the final analysis, remits us to a discussion of the dynamics of local governance, looking at institutional coherence (Olivier de Sardan 2009; Bierschenk 2010; Crook 2010; Booth 2010; Manor 2011; Batley et al. 2012).

This paper analyses the question of private-sector involvement in the co-production of public services at district level. Starting from the analysis of the dynamics of two sectors, namely agriculture and water (focusing on the rural water subsector), the paper argues that the involvement of the private sector in the co-production of public services at local level depends, among other aspects, on the way in which the sector policies and strategies are combined with the main instruments of local governance, namely the district plans and the local development initiatives. The paper's main argument is developed in two sections. In the first section, it is centred on the main aspects of the reforms which mark governance in the districts, and, in the second section, it analyses to what extent the main instruments of district governance and local development initiatives are coordinated with sector policies and strategies.

District governance: Decentralisation reforms and their dynamics

Since the 1990s, Mozambique has been undergoing important political reforms with implications for governance at local level. These reforms are expressed in decentralisation, which has been implemented in terms of two models: political decentralisation, which consists in devolving power from the central state to autonomous local bodies – the municipalities (Law 2/97); and administrative decentralisation, which consists in a deconcentration of functions and powers of the central state to state bodies at local level – provinces and districts (Law 8/2003).

With regard to administrative decentralisation, the Law on Local State Bodies states that:

the district is the main territorial unit in the organisation and functioning of the local State administration and is the basis for planning the economic, social and cultural development of the Republic of Mozambique (Law 8/2003 Article 12).

In this context, the decentralisation reforms gave rise to a series of local-governance instruments. Among these, there stand out the district plans, namely the District Economic and Social Plan and Budget (PESOD) and the Strategic District Development Plan (PEDD), with the time horizons of one and five years, respectively (Forquilha 2010).

Based on centrally defined methodologies, the district plans follow a territorial logic, that is, they take the district as a territorial unit, and, in principle, the process of drawing up the plans depends on community involvement through the institutions of community participation and consultation, particularly the local councils. However, although the political discourse and the legislation stress the territorial dimension of the drawing up of district plans, in many cases the process is still strongly marked by sector logic, as the case of Gorongosa district illustrates:

There are gaps in the planning process. When decentralisation was undertaken, it was thought that the plan would be completed in the district ... but it doesn't work like that. For example, for the PESOD of 2012, when it was drawn up, the district had no information about what was coming from the sectors in terms of activities and budget ... which means that the PESOD for 2012 was drawn up without information about activities and budget from the sectors [education, health, agriculture, public works, etc.]. Under these circumstances, often what happens is that the district only receives information about activities and funds during the implementation of PESOD In the district, various district services were set up, but some funds and technical staff still remain centralised in the respective sectors in the province¹

Information is made available late, not only about activities and budgets from the sectors, but also about the budgetary limits in general. This transforms district planning into an exercise in listing local needs/priorities. Furthermore, this makes it difficult to implement and monitor PESOD and hinders the coordination of sector activities by the district government, a fact which may affect the results of the actions undertaken within the framework of the sector reforms.

A further instrument of district governance is the District Strategic Development Plan – PEDD. With a five-year horizon, PEDD seeks to bring

¹ Interview with Mr PM, member of the Gorongosa District Government, Gorongosa, 1 November 2011.

relevant information about the characterisation of the district, the diagnosis of its potential and challenges, as well as the development strategy. Thus the PEDD arises as a reference instrument, not only for drawing up the annual district plans, namely the PESODs, but also for guiding investment in the district.

Apart from the district annual and five-year plans, the district governments also have another important governance instrument – the District Development Fund (FDD). At the origin of the FDD, (initially known as the Local Initiative Investment Budget – OIIL) was the approval by the Assembly of the Republic of Law 12/2005 on the 2006 State Budget. This laid down district investment of 7 million meticaís for each district (Forquilha 2009). In 2009 the OIIL was transformed into the FDD, with the approval of Decree 90/2009. In recent years, the amount allocated to the districts under the FDD has been growing, surpassing the 7 million meticaís.² The challenges concerning the use of the FDD are well known: lack of clear guidelines, particularly in the initial years, low levels of repayment, non-transparent management in some cases, etc (Orre & Forquilha 2012). But, for the FDD, the most important challenge is probably its weak linkage with the other instruments of local governance, namely the district plans and the sector policies and strategies, in order to serve as a factor that stimulates local development in accordance with the potential of each district and in line with the PEDDs.

How are these various instruments of governance coordinated, on the one hand, with each other, and, on the other, with sector policies and strategies? To what extent could this coordination favour the involvement of the private sector in the co-production of public services locally? To answer these questions, let us look at two sectors, agriculture and water.

Involvement of the private sector in the co-production of public services: How and through what mechanisms?

In the last 15 years, various policies and strategies of important sectors in Mozambique, such as health, education, agriculture, water and sanitation, have stressed the importance of involving the private sector in the co-production of public services. But, despite this, implementation of the reforms has revealed a certain contradiction and institutional incoherence in terms of coordinating sector policies and strategies with the main instruments of district governance. This contradiction and institutional incoherence not only create difficulties for

² For example, in 2012, Ribáuè district received about 11 million meticaís.

the involvement of the private sector in the co-production of public services, but also, in some cases, does not even favour the emergence and development of a local private sector capable of playing an important role in district development. In what sense? This is what we shall discuss in the following lines, based on the agricultural and water sectors.

The agricultural sector

Although the issues of private-sector involvement in agriculture can be found in several documents from the sector, it is above all in the Strategic Plan for the Development of the Agriculture Sector (PEDSA) 2010–2019 that it took on greater visibility. Indeed, PEDSA stresses that it ‘is creating space for a more active private sector in production and in service provision’ (MINAG 2010: vii). From the perspective of PEDSA:

the private sector consists of family sector producers, the associations, the emergent farmers, the commercial farmers and livestock breeders, the forestry entrepreneurs, as well as the providers of agricultural goods and services, including inputs, equipment, technical assistance, financial services, processing and marketing (MINAG 2010: vii).

But, in the case of the districts, the private sector still consists mostly of family-sector producers who, in some cases, are organised into associations. For districts with strong agricultural potential such as, for example, Ribáuè district, it is also possible to find emergent farmers cultivating between five and ten hectares.

The emergence and development of the private sector are part of the government’s responsibilities. Furthermore, PEDSA stresses that:

the government is essentially committed to creating a favourable environment for private sector investment in production, processing and marketing, through infrastructures, allocation of incentives, improvements in the legal framework, and provision of public services, notably the administration and management of land and forests and environmental protection, encouraging production, agricultural information, defence against plant and animal diseases, agricultural research and building the capacity of the producers, as well as in the safety network in response to emergencies (MINAG 2010: viii).

In the districts, the creation of a favourable environment for the public sector requires, above all, coordination of the main instruments of governance with sector policies/strategies. In the case of the agriculture sector, this means a link between the district plans, the FDD and PEDSA. This link would make it possible, for example, to face the challenge of financing small and medium producers through resources from the FDD.

But it is important to stress that it is not just a question of financing the producers or economic agents linked to the marketing of inputs or the establishment of rural shops. Indeed, in many districts today it is possible to find borrowers from the FDD who have received money with the aim of producing food and for agricultural marketing, particularly since the time when President Guebuza, during his open presidencies, began to insist on the idea that the money should be used to produce food, generate income and create jobs. It is thus a case of channelling this funding to the areas regarded as strategic and a priority in the district development plans and in the policies/strategies of the agriculture sector, such as PEDSA, for example. This would be a way, on the one hand, of facing the challenge of financing the local private sector and, on the other hand, of stimulating local development through making the district plans operational, using the resources made available under the FDD.

In cases where the FDD finances agriculture sector projects, these projects are not always located in the areas identified by the district plans as strategic and as priorities. Furthermore, although PEDSA stresses that 'the beneficiaries of agricultural credits and the beneficiaries of the District Development Fund (FDD)' should be supported 'with technical information and advice for the development of agricultural companies' (MINAG 2010: 46), the fact is that the District Economic Activities Services (SDAE) possess extremely limited technical capacity, in terms of the number of extensionists, in order to deal with the technical assistance needs of the producers, particularly those in the family sector. For example, in Ribáuè district, in Nampula province, the total number of extensionists has not grown in the last two years (2011–2013), as Table 1 shows.

Table 1: Rural extension in Ribáuè district

Indicator	2011	2012	2013 (planned)
EXTENSION NETWORK			
No. of extension networks	4	5	8
No. of extensionists	78	61	70
Women	2	0	8
Men	76	61	62
BENEFICIARIES			
No. of peasants assisted (in groups)	2 100	2 100	11 200
Women	1 256	1 361	9 078
Men	844	739	2 122

Source: Adapted from PESOD-2013 (Government of Ribáuè District 2013)

Most of the extensionists in Ribáuè belong to private companies and non-governmental organisations (NGOs), namely OLAM, Corredor-Agro, Sonil, OLIPA/Promer and SCIP, as shown by these words of a Ribáuè SDAE staff member:

... Right now, Ribáuè district has few State extensionists ... in fact, we only have five extensionists to attend to the needs of the district, in terms of assisting the producers. In the current situation, the district would need at least eleven State extensionists. Furthermore, we have problems of work resources for those few extensionists we do have ... Under these circumstances, we have requested the collaboration of the companies that work here in the district, so that staff from the private sector share their resources with our staff³

Hence, in addition to the challenge of coordinating the main instruments of district governance (district plans, the FDD) with sector policies/strategies, as mentioned above, the creation of a favourable environment for the emergence and development of the local private sector also faces the challenge of the poor technical capacity of the state in terms of assisting the producers, particularly those in the family sector. Now, let us look at the dynamics of the rural water subsector.

The rural water subsector⁴

As for the rural water subsector, as in the agriculture sector, the issue of private-sector involvement is covered in the main policy documents and directives of the water sector in general, such as the Water Policy (PA), the Rural Water Supply and Sanitation Strategic Plan (PESA-ASR), and the Implementation Manual for

³ Interview with Mr EL, a staff member of the Ribáuè District Economic Activities Services, Ribáuè, 23 April 2013.

⁴ This section is based (with slight modifications) on my article published in *Desafios* 2013 – Forquilha 2013.

Rural Water Supply Projects (MIPAR). For example, in the section dedicated to water supply in rural areas, the Water Policy (PA) states that:

involvement of the private sector is encouraged in preparation and support for the communities, projects, construction, supervision, support for maintenance, provision of spare parts, research and production of equipment. Where the private sector is not capable or interested in being involved, other solutions adapted to each region will be found in a flexible manner (Resolution 46/2007: 52).

According to the Water Policy (PA), the involvement of the private sector is aimed at achieving two main objectives, namely 'to benefit from the dynamism of the private sector and to achieve more rapid socio-economic growth by attracting private investment' (Resolution 46/2007: 61).

But, as in other sectors, the involvement of the private sector in the co-production of rural water supply services is not so linear. This is due to several factors. Some of these factors concern, on the one hand, the very capacity of the state to set up the conditions for the emergence and effective involvement of the private sector, and, on the other, the embryonic stage of the private sector, particularly in the districts. For example, concerning the state, not all the districts have an effective installed capacity to plan, implement, monitor and manage contracts for water infrastructure building projects. Some construction contracts are still managed at provincial level, often with poor communication with the districts. This results in significant delays in paying the contractors and in poor quality of the jobs (SNV 2010). Furthermore, the shortage of qualified water technicians in the District Planning and Infrastructure Services (SDPIs) does not allow the districts to supervise adequately the jobs built so as to guarantee a good-quality service. A further aspect, which shows institutional incoherence with regard to the involvement of the private sector, is the question of the artisans.

In the context of the water sector policies and strategic lines, the artisans are an important factor in the co-production of water services. In the case of rural water supply, the artisans can represent an added value in that they are providers, inserted in the communities to which they provide a service. For this reason, the communities can more easily hold them to account if the work is badly done (Estamos 2003).

Indeed, the government and its partners who work in the rural water subsector have invested resources in training local artisans as a way of supporting the emergence of a private sector more inserted into the communities. But it is to be noted that the local artisans, once trained, are not always absorbed into the jobs of rehabilitating infrastructure of the district governments. One of the reasons for

this non-absorption is the fact that many artisans do not meet the conditions to apply for the public tenders launched by the district governments, since they do not have building permits. The question here is: Why invest resources in training local artisans when afterwards the state itself does not set up the mechanisms for absorbing them and thus contribute to the emergence of a local private sector capable of playing an important role in the co-production of the rural water supply service? In this regard, a member of the Nacaroa District Government stated:

*... the issue of the local artisans needs to be dealt with at another level, because here in the district we can't do anything. Here we already have many artisans who have participated in courses organised by the projects. But when we launch tenders, to rehabilitate water points, for example, these artisans of ours cannot participate because they don't have permits ... And this causes a lot of frustration, particularly among the artisans themselves because they cannot make good use of what they learnt during their training ...*⁵

A strong coordination between the instruments of district governance and the water sector policies/strategies would allow the artisans trained under the water supply/sanitation programmes/projects to have access to the FDD funds, with the aim of developing the business of repairing water and sanitation infrastructure at local level. However, this does not seem to be the case. Indeed, in Ribáuè district, for example, it is interesting to note that, of the about 513 projects approved under the FDD, in the period from 2006 to 2012, not a single one is linked to activities of an artisan or an association of artisans trained in the context of the water and sanitation projects/programmes.⁶ But the problems are not just on the side of the state. They also exist on the side of the private sector itself. Speaking of the involvement of the private sector in the rural water subsector, a technician from the National Water Directorate stated that:

... the private sector is an essential partner for us. We need the private sector for construction, inspection, community participation and education, consultancy ... But often the bottleneck is their capacity to respond to tenders in useful time. The private sector is still embryonic, it is not yet behaving professionally ... For example, it has sometimes happened that a company has won a tender for building water infrastructures, and then we ourselves have had to insist several

⁵ Interview with Mr. G. E., member of the Nacaroa district government, Nacaroa, 26 October 2011.

⁶ Government of Ribáuè District 2012.

*times that it comes to our office to sign the contract. On other occasions, they have difficulties in presenting the documentation in good order ...*⁷

Apart from the aspects mentioned above, the involvement of the private sector in the provision of rural water services also requires the effective existence of market conditions locally. But, as a study undertaken on this subject in Niassa province by Estamos shows, these conditions very probably still need to be built (Estamos 2003).

The issues of the capacity of the private sector and of the market conditions have been duly identified as relevant matters for the rural water subsector, as stressed in the programme document of the National Rural Water and Sanitation Programme (PRONASAR), in one of its appendices. Indeed, Appendix 3 of PRONASAR mentions that:

several organisations report poor performance and/or significant delays by private sector service providers, mainly drilling contractors. The capacity constraints are also reported in related services, such as geophysical research, water quality testing and, most importantly, services to repair boreholes and hand pumps. These factors contribute to poor results, high rates of boreholes out of order and an increase in the costs of inputs and services. The general performance of the sector is badly affected by the inadequacies of the market for inputs, due in part to the limited number of suppliers of these inputs in comparison to the growing demand, to import taxes and fees, and to the lack of timely sharing of information on prices and of activities to promote investment, to mention some of the causes (DNA 2009: 14).

Conclusion

The involvement of the private sector in the co-production of public services in the districts requires institutional coherence, expressed in the coordination of the instruments of district governance with sector policies/strategies. This coordination would allow greater rationalisation and maximisation of the financial resources channelled to the districts, particularly the FDD, financing projects which respond to the district plans and to the sector policies/strategies, which could, in turn, contribute to establishing favourable conditions for the emergence and development of the private sector at local level.

⁷ Interview with Mr. M. M., a planning technician at the National Water Board, Maputo, 3 April 2013.

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BUSINESSES IN 'PENURY': THE PROBLEMATIC OF THE EMERGENCE AND INVOLVEMENT OF THE LOCAL PRIVATE SECTOR IN THE PROVISION OF PUBLIC SERVICES: THE CASE OF NACALA DISTRICT

Domingos M do Rosário

Introduction

The problematic of the involvement of the business class in Mozambique is defined in the government's legal and programmatic instruments (PARPA II, PQG-2005-2009). The political debate between various live forces of society converges on attributing a significant position to the role that the national business class should exercise both in regional integration and in the promotion of the growth and economic development of Mozambique. Recent studies ordered by the Mozambican government and by international institutions indicate that: (i) legal aspects; (ii) fragile institutional capacity; (iii) the quality of the infrastructures; and (iv) the problem of access to funding or to credit (World bank at al 2003), are the main reasons hindering the development of the private sector and its contribution to improving the provision of public services.

In recent years, and as a result of the political and macroeconomic reforms under way in the country, the government, recognising that small and medium enterprises are at the heart of the country's development, in that they can contribute to job creation, reduce poverty, and contribute to economic growth, has implemented a series of sector reforms, not only within the framework of

EMAN1, which aimed to place Moçambique at the top of the Southern African Development Community (SADC) by 2012, but also in terms of the Doing Business Index. However, these challenges have not achieved palpable results. Five years later, Mozambique remains among the three worst countries of the SADC, and the institutional arrangements on which the current private-sector code is based, are outdated. The lack of political will, the absence of commitment and responsibility, weak leadership, and the lack of mechanisms for redefining the institutional arrangement for coordinating the reforms implemented by the government mean that the reforms are relegated to a secondary position, which makes the business environment more complex, thus discouraging the emergence of the local business class (O país 2013).

For the Confederation of Business Associations (CTA), this problem persists because the government reduces the reforms to the simple approval of legislation and of fees, ignoring an entire context in which these reforms should be implemented (*Noticias* 2013). The creation of a Dry Port in the Nacala special economic zone is an example to consider, not only because it increases significantly the transaction risks because of the fees charged, but also because it makes the Port of Nacala less competitive in comparison with other ports of the region, which has contributed to the weak involvement of the local business class in the better provision of local services (Ibid).

In this context, the question posed is: What are the barriers and/or structural factors which hinder the development of the Nacala business class and its involvement in the provision of local public services?

Before answering this question, presentation of the methodology and the object of the study is fundamental for understanding the administrative and legal factors which hinder or facilitate the involvement of the local business class in the provision of public services at local level.

Methodology of the study: Characterisation of the districts and structure of the work

Since this is a study that analyses local perceptions of the legal and administrative factors which hinder and/or facilitate the involvement of the local business class in the provision of local public services, we held interviews with focus groups comprising business people linked to the areas of restaurants, civil construction and transport in Nacala Port, with local artisans who work in construction and repairs in Nacala-a-velha, with the local representative of the CTA, with a representative of ATRON (Association of Nacala Transporters), with some

traders from Nacala-a-velha, and with the District Economic Activities Services (SDAE) of Nacala Port and Nacala-a-velha. Held over two periods of 21 days each, these interviews allowed us to understand, from the perceptions of these stakeholders, the real barriers preventing the involvement of the local business class in the provision of local public services. Participant observation was also prioritised. Indeed, during our stay in Nacala-a-velha, we saw small building works which ought to have been carried out by local businesses, but which were being undertaken by foreign companies.

Characterisation of the object(s) of study

- *Nacala Port district* is the second-largest urban centre in Nampula province. It has a surface area of 560km² and a population of 231 336 inhabitants. It has a population density of 713.3 inhabitants per square kilometre. The population is young, with the majority being female (50.8%) and urban in nature. About 75% of the population lives in the urban area, which is divided into two administrative posts, Mutiva and Muanona. The majority of the population of Nacala Port follow the Islamic religion (79.3%). Unlike Nacala-a-velha, the district of Nacala Port is traditionally linked to service activities, notably in the area of transport, the development of which is directly linked to the port and railways. In Nacala, there are 13 banks and 50 institutions linked to micro-credit, micro-finance, insurance and others. Food and drink processing, the extractive industry, and the textile, clothing, rubber and metallurgical industries are all represented in the district, employing about 3 000 people (INE 2013a). In addition to these industries, there are four officially recognised transport companies, six accommodation establishments, 45 restaurants, and 26 civil society organisations with about 110 activists (Ibid).
- *Nacala-a-velha district* is located on the coast of Nampula province, 210km from the provincial capital. It borders to the south with Mossuril district, to the east with the Indian Ocean, to the north with Memba district, and to the west with Erati and Monapo districts. Its current population is 106 543 inhabitants and its population density is 92.6 per square kilometre. The population is young, mostly female (51.3%) and rural. The rate of urbanisation is 6%. As for infrastructure, the district is crossed by the main road and railway which link Malawi to Nacala Port, and it is connected to the Nacala Corridor through the national highway. The 50-kilometre road from Nacala-a-velha to Memba and

the other 177km of road network in the district are passable. There are other unclassified roads, which facilitate internal communication between some regions and others. Agriculture is the dominant activity. In 2010, there were 21 316 small and medium farms in the district being exploited in a regime of mixed crops, although using local varieties (INE 2013b). Small-scale local industry, fishing, carpentry and handicrafts are alternatives to agricultural activity or an extension of it. Owing to the proximity of Nacala city and the road links with the provincial capital, Nacala-a-velha district is integrated into various market networks. This means that the commercial links for goods produced locally stretch from the interior of the district to Nacala, Tanzania and Malawi. Since the formal trade network does not function at all, commercial activity is in the hands of informal traders scattered through the communities. They guarantee the supply of basic goods for rural communities and the purchase of agricultural surpluses. Up until 2005, there was no formal credit system and not a single bank in Nacala-a-velha (MAE 2005). The business situation of the commercial and industrial infrastructure in Nacala-a-velha, even after it began to be included in the Special Economic Zone in 2009 and with the construction of the Nacala-a-velha Port, is far from improving. According to the National Statistics Institute (INE), from 2008 to 2011 only one bank was opened and, up until 2012, there was no means of electronic payment in the district (via ATM and POS). By 2012, there was only one extractive industry (employing 281 people) and one food-processing unit (employing 4 people). By 2012, in Nacala-a-velha, there were only 21 retail establishments (employing 54 people), 1 warehouse (employing 28 people), 1 accommodation establishment (employing 3 people), 4 restaurants (employing 8 people), and 17 associations with 61 people (INE 2013b).

For better presentation of the argument, this paper is divided into two sections from here on: the first, limited to Nacala Port district, presents the barriers to the consolidation of the local business class in a situation of major investments and competition with large foreign companies within the framework of the Special Economic Zone (ZEE). In this section, we show that the interests of local and centrally established political elites, who use the state as a means to guarantee access to large international capital, prevents them from approving more specific and 'protectionist' legislation that would facilitate the involvement of the local business class in the provision of local public services. The second section, which analyses Nacala-a-velha district, shows how, in a situation of 'penury' or non-

existence of a local business class, the promotion of local associations which should, within the framework of the decentralisation policy, constitute a viable alternative, runs into barriers due to the cronyism of the instituted power in the local administration.

The role of the Nacala Special Economic Zone in the promotion (or demotion) of the local business class

In 2007, the Mozambican government approved Decree 76/2007 of 18 December, which set up the Nacala Special Economic Zone (ZEEN). This zone covers the geographical area of the districts of Nacala-a-velha and Nacala Port and its purpose is to attract domestic and foreign investment. However, only in 2009, after Frelimo had won back control of Nacala Port municipality, was a start made on implementing the ZEEN with the approval of the first 11 investment projects. By 2011, ZEEN had attracted US\$ 400 million (AIM 2011). Two years after the implementation of the first 11 projects under ZEEN, the Mozambican government approved Law 15/2011 of 10 August establishing the guiding norms for contracting, implementing and monitoring public-private partnerships, large-scale projects and business concessions. The purpose of this law was to regulate major investments such as: (i) the rehabilitation and transformation of the Nacala air base into a civilian airport; (ii) the rehabilitation and expansion of the Port of Nacala; and (iii) the construction of the Nacala Dam and of the Nacala Coal Terminal so as to give visibility to the Economic Zone.

Implementation of these projects is a major concern for the government, which, in addition to approving the law, had set up, under the Centre for the Promotion of Investment, an organic unit with the task of promoting business linkages. However, the role played by this unit is marginal, all the more so because it has not managed to do what was necessary to reduce the 80% of purchases of goods and services which, for example, the Brazilian building company Odebrecht makes on the Brazilian rather than the Mozambican market. The lack of skilled, local small companies, the poor quality of the services provided, the high prices, and the lack of licences and of business capacities are indicated as the main causes why the local business class is not involved in service provision (Conselho de Ministros (Council of Ministers) 2007).

This problem should deserve special attention, not only because it is one of the demands of the local business class, concerned at the acquisition on the international market of goods and services which are available on the local and national market (Cumbe 2013), but also because the government, within the

framework of the ZEE, envisaged an Innovation/Catalyst component involving, among other things, building the capacity of small to medium-sized enterprises (SMEs) so that they can respond to the demands and needs for goods and services for large-scale projects. Putting this principle into operation is not producing satisfactory results. The inadequacy of legal instruments, limitations of capital, and the lack of more 'protectionist' policies are interpreted as factors which inhibit the development and growth of the private sector, preventing it from contributing in a more significant way to the provision of public services, particularly at local level. In this context, the solution could be found in partnerships between large companies and SMEs.

Partnerships between large companies and SMEs within the framework of the Special Economic Zone. What partnerships?

While the large projects approved in the Special Economic Zone increased the expectations of local businesses, particularly those in transport and civil construction, in that they saw the possibility of establishing partnerships with these companies so as to strengthen them and become more competitive, in practice these partnerships are far from becoming a reality. For local business people, the discourse of the government is just one of intentions, and is not in line with the real situation of Nacala:

Yes, the government is looking at Nacala, but we should understand who it is looking at. It must be looking at other people and not at us. It is us who, for a long time, guaranteed the supply of merchandise ... there was a time during the war, when we had a contract with BP under which we supplied fuel to all the pumps, including the airports throughout northern Mozambique. We distributed to Lichinga, to Cabo Delgado, at a time when the road was dreadful ... even with the rains we made a point of transporting merchandise to these places. Today they want to take the contract away from us and give it to a South African company ... what promotion is this? At the critical moments we had all these situations, but today the roads are good, there are different business opportunities, and nobody wants to know about us. They're beginning to want foreign businesses ... I think all this is linked to the legislation which is very weak and doesn't protect us (President of ATRON, Nacala, 20 July 2013).

The weakness of Mozambican company legislation has significantly reduced these expectations. Copied from other contexts, notably from Latin American

and Asian countries where Special Economic Zones have been implemented, the government has not been able to adapt this concept to local reality. This legislation contradicts not only national fiscal and monetary policy, but also immigration and labour legislation. According to some studies, one of the main causes why the Special Economic Zones have been unsuccessful in promoting partnerships between the SMEs and the large companies concerns the inadequacies of fiscal, labour and administrative policies (FIAS 2008).

The slowness of the reforms the government is carrying out means that, when companies such as Odebrecht and other large companies won tenders to rebuild the Nacala military airport, or the Vale-CFM Consortium to build the port at Nacala-a-velha, or WBO was hired under the Millennium Challenge Account to rehabilitate the Nacala Dam, they subcontracted as they like other small foreign companies to provide services such as quarrying, building prefabricated condominiums, importing inputs, etc., to the detriment of local companies. Most of the subcontracted companies bring with them not only equipment, but also staff of doubtful quality to occupy important posts, leaving the local staff with subordinate positions:

These contracted companies, they do the subcontracting in their own countries based on relations of friendship and camaraderie (business opportunities) which they established a long time ago ... and our legislation doesn't prevent this and nothing obliges contracted and subcontracted companies to hire a percentage of local companies and local staff ... they are free to fetch what they want, when they want it without any problems ... it's a failing in the legislation which does not make it obligatory for the large companies to form partnerships with local small enterprises or to recruit a percentage of local labour ... Here they say that they only want carpenters, stonemasons, etc. That's why Vale and Odebrecht have opened a technical school to train this kind of staff.

Relying on foreign companies to the detriment of national ones is linked to the interests of local political elites, and also to those centrally established elites who are using privileged access to the mega-projects based on alliances and political history, that is, based on the capture of the state, as a means of ensuring access to large international capital. In many of these cases, the national corporations resort to the use of institutional capital (access to institutions, trafficking in influence, and alliances with political power) in order to choose and penetrate into strategic areas with strong negotiating positions (Castel-Branco 2010), to the detriment of the local business class. The case of a local businessman who decided before the

project to go into debt, with the promise that he would win the reconstruction work for the new Nacala airport, speaks volumes:

When they were thinking of this idea of the Special Economic Zone, Minister Cuereneia urged us to invest in the transport area. In the various meetings he had with us, he said, have a go ... the train has already left and you don't want to feel left behind. Invest; the banks have already created openings, here's BIM, Standard Bank, the BCI strengthening so that they can compete with the others ... because work on the airport is going to take off. I made a plan and I obtained from BIM funding of 5 million US dollars, and I went to China to buy bulldozers, mechanical shovels, tipper trucks, steamrollers, all the construction equipment ... Since there was no Gazeda, I paid all the customs duties. Work on the airport took off, and when they opened the tender to hire the building company, I presented my equipment, which was the latest generation, my proposal and everything. They just came to see the equipment and said no, 'we don't work with Chinese equipment, because it doesn't give us any guarantees', ... I had to find a way out. ... I got a sub-contracting job for earth moving work in Maputo, and then I found another sub-contracting job in Chókwe. I took the equipment to Chókwe, and I finished. I obtained another job to make an embankment in the Costa do Sol area, where they were building condominiums. I did this third job in three months, because I had a lot of equipment. ... When I finished the job at Costa do Sol, somebody appeared who proposed to buy most of the equipment. He was a Mozambican, we closed the deal, I gave him the documents, and with the money I paid off my debt to the bank, I retained a small part of the equipment, which was my profit. ... I went back to Nacala satisfied, because at least I'd managed to pay off the debt to the bank. But a week later I went to the airport for some reason, and I saw my equipment working there, and the company operating it was foreign. I took photographs and went to show them to the director who had rejected my equipment, ... he said there was an interest of some people there. I presented the case to Minister Aiuba Cuereneia, I told him the story, I told him I had done that because he had encouraged it, and I showed him the proof ... I don't know if he did anything ... it's painful, and the equipment is still there working (J Semedo, local Nacala businessman, 20 July 2013).

These practices contradict the official discourse of the government which states that it is paramount to develop the productive and competitive sector of SMEs so as to create jobs, as well as goods and services in order to help reduce the level of poverty locally. National companies and business people, particularly the SMEs, since they do not have technological advantages that allow them to acquire power

on the world market if they do not link up with large companies, will face very strong competition from outside companies as soon as they emerge. So if they do not acquire competitive capacity through partnerships, they will quickly go bankrupt (Young 2005).

To achieve this goal, the government should step up production of appropriate legislation which defends the interests of local SMEs. It should also create the conditions so that local companies are able to compete with foreign companies. If not, they should seek other alternatives to strengthen themselves, and, in the context of the Nacala Special Economic Zone, Gazeda is a good opportunity thanks to the fiscal incentives offered to companies.

Is Gazeda an alternative to the development of the local business class?

It is true that the government, through Gazeda, has promoted a range of incentives. Thus, if a business person (i) has organised accounts in his company, (ii) has a copy of his identity card, (iii) is domiciled in Nacala for tax purposes, (iv) has a licence, and (v) chooses specific areas of investment, he will enjoy three years of tax exemptions, and from the fourth to the tenth years will pay only 50% of the taxes, and, finally, from the tenth year will pay 75% of customs duties on the purchase of machinery. While it is true that a year without paying corporation tax (IRPC) and exemption from customs duties on imported equipment would bring a very important competitive advantage, these incentives are far from corresponding to the structure of the local micro-companies and business sector. The high rates charged by the finance ministry, and their informal and illegal structure, prevent many micro-companies from meeting the conditions necessary to accede to Gazeda. Interviews with two business people help us understand the difficulty in acceding to Gazeda so as to benefit from the tax exemptions:

For example, this story that to enter Gazeda you must have organised accounts ... that means that Gazeda is not for small companies ... I don't see a small or medium company appearing in the first year with organised accounts. For one thing, its volume of business is not enough for it to have organised accounts, since having organised accounts depends on the volume of business that year. For example, the Finance Ministry says that with this volume of business you can be in this or that regime. Later, when your volume of business begins to increase to a certain level, the Finance Ministry tells you that, as from the next financial

year, you must have organised accounts because you have a different volume of business (Mário Fernando, Atron, Nacala 20 de Julho de 2013).

And another businessman adds:

It's not because we want to evade taxes, but the conditions demand it ... when we go to Gazeda to obtain benefits, they demand a series of conditions from us. First organised accounts, then tax records for the last three years, etc., etc. ... but I ask these new, Portuguese companies who've been here for a month, did they present tax records for the last 3 years? Do they have organised accounts? Did they go to Portugal and/or South Africa to see this? Why do they ask us, but they don't ask the foreigners? There's a very big double standard, and it's always to the benefit of the foreigners, and it clearly prejudices the local business people, which undermines their development ... We have serious problems of accountants. We have a great shortage of human resources, and particularly accountants. When you ask for outside accounting it's very expensive particularly for us local business people who don't have much chance ... (J Semedo, representative of the CTA, Nacala, 18 July 2013).

Mozambique does not have enough qualified accountants, and the costs of collecting and filling in the documents are often, for small companies, greater than the cost of paying the taxes (Lafleur 2007). There is a series of administrative and legal barriers which prevent established businesses from competing on a footing of equality with foreign businesses that benefit more from the Special Economic Zone:

When the government pushes national or foreign businesses to come here, it says it's new, come and set up here, and we'll give you a series of tax benefits, exemption from duties on the purchase of equipment, exemption from VAT, exemption from personal income tax (IRPS), a range of tax benefits which are granted to foreign investors. I'll give you an example that concerns the local businesses. Imagine that a local business has imported, before the special economic zone, with the help of a bank loan, a brick factory from Brazil and is making and selling bricks ... now along comes a foreign or Mozambican businessman, but who is new to Nacala, he comes and sets up here and he collects the tax benefits. One of the things he does is set up a brick making factory with equipment exactly the same as mine, which also came from Brazil. But he is exempt from customs duties, exempt from VAT, exempt from IRPS. He sells the same bricks that I sell, buys the same cement, the same sand and stone that I buy. The difference is that he

has exemptions and I don't. Automatically, this neighbour of mine is able to sell at half the price that I charge. VAT at 17%, IRPS at 20% gives him good room for manoeuvre to lower the price. He sells cheaper, but with the same quality, because the brick factory and the raw material he uses are the same as mine. Is this Special Zone also for us? ... When I present my price, my quotation is higher when compared with his, and so we're losing clients in the area of transport, we're losing clients in the area of civil construction.

The government should have set up a special zone where all actors in the zone benefit from tax incentives; otherwise it is doing away with the local business class. The government should have adopted policies to prevent foreign businesses from investing in small plants such as brick-making factories, or in restaurants, and set up more incentives for these areas to be occupied by local businesses, even if it had to set up a fund to support small local businesses so that they could participate in local development.

It is true that the government, with the support of the International Fund for Agricultural Development (IFAD) and the African Development Bank (AfDB), under the Economic Rehabilitation Support Fund (FARE), has provided a sum of US\$ 34.2 million to reduce poverty, improve the living conditions of the rural population, and increase the viability of local companies through sustainable access to financial services in the rural areas (FARE 2009). However, it does not yet seem to have produced the desired effects. Not only has it not empowered the local companies, but this programme is far from producing a policy of business linkages between the large companies and the local SMEs which would facilitate the development of business so that the local enterprises could participate actively in the provision of local services, particularly in water and sanitation infrastructure, which is one of the greatest problems from which Nacala Porto and Nacala-a-velha district suffer.

The problem of the development of the local business class and its involvement in the provision of local public services in Nacala-a-velha

According to official statistics, by 2012, there was one food-processing unit (employing 4 people), 21 retail establishments, 1 warehouse, 1 accommodation establishment, and 4 restaurants. These statistics show us the almost complete absence of a business sector able to contribute to the provision of local public services. However, and before the elevation of Nacala-a-velha district to

the category of a Special Economic Zone, there were attempts by the local government, particularly in respect of infrastructures and within the framework of the decentralisation policy, to create incentives for the emergence of a local business class, but without any results. What factors contributed to this failure?

With regard to infrastructure, and particularly the water sector¹, private business involvement is enshrined in the main documents of the sector, namely in the Strategic Rural Water Supply and Sanitation Plan (PESA-ASR), in the Rural Water Supply Projects Implementation Manual (MIPAR) and in the Water Policy, which encourage the involvement of the private sector in preparing and supporting communities in the building of projects, inspection, support and maintenance, etc.

Within the framework of decentralisation, Decree 15/2010 of 24 May – regulations on hiring public-works contractors, as well as regulations on the supply of goods and the provision of services to the state – is one of the mechanisms for promoting the local private sector and associations of local artisans in the development of the local economy. Under the Water Policy, this decree allows the formation of local maintenance structures capable of guaranteeing the sustainability of the water installations and local infrastructure. However, implementing this in Nacala-a-velha district finds no space inside the district government.

The promotion of Nacala-a-velha district to the status of Special Economic Zone roused the attention of the local associations and some businesses whose expectations grew that they could contribute to the development of the local economy through providing public services to the community. In the water sector, the start of the activities of Scip in the district in 2010 further strengthened these expectations. In fact, Scip, apart from reactivating the previously constituted committees, which were functioning badly, provided more specialised training for the maintenance and repair of the entire water source. It made legal and financial support available for the creation of the association of local artisans and to obtain a licence from the district government/SDPI.

It is interesting to note that, although the licence gives power to the Nacala-a-velha association of local artisans to 'undertake complete maintenance of the water sources, operate small rehabilitations of local public works, carry out routine maintenance of the roads that connect the various communities of Nacala-a-velha', the activities of the association of artisans are confined only to the repair of the water sources. Other activities, such as road maintenance and small-scale rehabilitation of public buildings, from a certain moment, came to be undertaken

1 Water supply in Nacala-a-velha is one of the most serious issues, since most of the population has no access to clean drinking water. In 2007, only 0.1% of the population had access to water inside their houses, 2.4% to the public network outside the house, 11.4% to standpipes, 13% to protected wells or boreholes, with the remaining 57.7% drawing water from open wells – INE 2013b.

by companies from other parts of Nampula province, depending on their relations of kinship and/or affinity with officials of the District Planning and Infrastructure Service (SDPI).

The reports below, obtained in a collective interview with the association of local artisans, illustrate well how the dominance of crony relations in awarding local public works takes the place of the norms drawn up by the central government itself. This procedure, in addition to lowering incentives and undermining the development of local associations, which are the embryos of a local business class, prevents them from contributing to the provision of better public services locally. The interview with the members of a local association and group of artisans illustrates this procedure:

The Administrator Mário Ernesto, predecessor of Administrator Tchapo, needed to form an association He said the district needs an association of builders There was an association of local builders set up by the former administrator Administrator Mário Ernesto mandated the official who is there right up until now ... and told her to find people who have experience in building to form an association She came to invite me and I recruited people ... stone masons, electricians, carpenters This Association was called Okalihera Mingurimera Ltd (a rural micro-company in association form) This man, I have no problems with him He wanted to work with the associations He wanted the associations to exist ... before being transferred If you go over there, you can see five houses (government houses) which we built with the former administrator. Those houses were my work, I did it with my team from the association As well as being an artisan, I also build I am illiterate, I don't like to point the finger at people The current administrator and his team did not continue the work done by the other one ... they didn't want to know I have papers showing that I spent money, money ... I wept I can even shed tears because ... , because ... I was at the head of the papers of this association... . We even have a licence, but I can't explain the whereabouts of that licence... .

Another artisan added:

This licence was used in the following terms: I was mandated to undertake a survey of the house of the head of the Ger-Gêr post, of the residence of the secretary of the dam for purposes of rehabilitation with the association I went there several times, I used my motor-bike, and my money, as if I were a contractor, because I was hopeful that I would win the job, ... all that I was doing there wouldn't be wasted for me. I took my transport and I took an official of the SDPI,

and we did the necessary survey. We went to Ger-Ger to do the survey of all the necessary aspects, we returned, I refuelled the motorbike again, and we went to the dam and did the survey. ... Afterwards, we presented the documents, we drew up a budget and we signed the contract to rehabilitate those houses, ... I signed the contract because this work was a priority for the association and a public tender was not necessary ... all fine ... I went to sign the contract ... with the administrator The funniest thing was that a few days later they said the money hadn't come out, but the director had told me he had funds and that they were just waiting to release them I signed the contract and then they said the money hadn't come ... but all the surveys and the budget had been done I didn't turn away ... we did a little research and we discovered that the job was being done by a businessman from Memba, ... right, the director of the SDPI is from Memba. So when the money doesn't come out for this association and the work was done by a business from Memba, what does this mean? ... There was no official communication and they didn't return the contract to us. Under normal circumstances, they should return the contract or say that the contract is annulled and open a tender for people to compete. ... They used my contract and my licence for other people who didn't have a licence.

Another artisan also added:

If the contract, which we signed, was not correct, then why did the administrator not reject it? Why did the dispatch not reach us? We would have known the reason for rejecting the contract, if it was because the budget was too large ... etc., etc. ... they used our licence for the interests of some people ... when you speak to the chiefs about these things, you get called names ... when you criticise, they say you're from the opposition, ... automatically you're an enemy of the chief and a member of the opposition ... and it died like that ... and our enterprise died like that, ... with all these constraints, associations cannot exist here in Nacala-a-velha, it's just a speech ... why didn't they give these jobs for us to do? They were little things, painting, replacing mosquito nets, putting in locks, replacing the roof, petty things, ... I'm saying there are the houses ... those houses have been there for three years, now to continue the work, they don't want to ... neither the rural micro-company nor the association of artisans can exist ... There is a series of obstacles placed by the SDPI. This isn't encouraging the appearance and growth of small companies ... I have lots of papers ... I even asked for money from my parents in order to obtain the association's licence, I took chickens so that I could travel to Nampula to the Provincial Directorate of Public Works and Housing (DPOPH) ... to have something of the association. Because even the outgoing

administrator, Mr. Mário Ernesto in his office told me 'look Mr Fernando, anyone who wants money spends money, do this, use your money, go to Nampula to the DPOPH, go after these papers so that you can have your association here, so that you are legal and can do jobs here ... And we reached this phase of artisans and we're here now as artisans.

Another member added, to stress the difficulties that associations face in Nacala-velha district:

Imagine – not even little services to rehabilitate small access roads, those tertiary roads which do not fall under the competence of ANE (National Roads Administration), which link villages. Here it's normal to see these roads being worked on by contractors with tenders. But we know that this road is not the responsibility of ANE, it's local in scope. What is this contractor doing here with trucks? Shouldn't it be us, with the local association, with our spades and hoes, doing this? ... Wouldn't this be a way of giving jobs to the people? It would be 30 men working there and earning 1 500, 2 000, 3 000 meticais, if I'm not mistaken ... how many families would benefit, and our association would grow ... I believe there is no big company which did not start small and progress, but our government only wants big things and doesn't value little things ... this slogan which says 'give voice to the voiceless', it's not for real, it's just a speech.

Another further added

We artisans, we're seeing a lot ... we're told that the licence was for doing small rehabilitations ... Here in the district capital, they don't look at us, rehabilitations happened and we are not called upon. For example, the football field was rehabilitated and nothing was said to us, the secretarial building had cracks, ... we should have repaired it, but they told us nothing ... it was a group that came from Nampula that won the tender ... they say our licence is only to rehabilitate boreholes ... we're isolated, the government, as a father, has the mission to give us guidelines, but it doesn't look at us, and all this is because of corruption ... but no! The government doesn't look at us, it says we don't have the capacity even before we've done anything ... so why did they give us the licence?

The informality of administrative procedures, cronyism of power at local level, and the fact that processes are not institutionalised mean that changes in political leadership at grass-roots level also affect the relations established between the local government and the associations. For the local government, the lack of

resources, and of opportunities for capacity building and training in business management and the association spirit, linked with the 'individualist culture' of the Nacala coastal societies, plays a determinant role in the absence of capacity to respond to local demands for public service provision. But for the local artisans there is no political will on the part of the district government to promote associations, and thus align the central government's discourse about reforms with implementation at local level. For the local artisans, the District Development Fund (FDD), the 'seven million meticais' distributed under the FDD, could have played a preponderant role in consolidating local associations. However, the way the FDD is managed and channelled funds almost entirely in a patronage manner to sectors regarded as priorities, such as agriculture, does not allow other types of associations, linked to other areas, to enjoy funding so that they can begin their activity in a sustainable form and thus contribute to the provision of good-quality services locally.

Conclusion

Although the government has created in recent years a series of legal instruments to promote the local business class so that it can contribute to improved provision of local public services, administrative, fiscal and legal factors on the one hand, and commercial factors concerning centrally established elites, with economic interests in Nacala district, on the other, still form a bottleneck preventing this sector from playing its role. These barriers widen still further the gap between the large (international) companies and the local SMEs. The discrepancy in material resources and the lack of support and of incentives, and the poor human resources skills, will constitute in coming years, if concrete measures are not taken, a fundamental problem and will place the Nacala local business class in a situation of informality that will not allow it to play its role as provider of grass-roots public services. In this context, a question is raised: If the reforms undertaken do not produce, in the coming years, significant changes opening spaces for the appearance, involvement and consolidation of the local business class, will they not be opening space for its disappearance?

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INHARRIME BY ITS ROADS: NOTES ON DECENTRALISATION AND PUBLIC SERVICES IN THE DISTRICT OF INHAMBANE PROVINCE

Euclides Gonçalves

*Inharrime businessmen act like palm trees
they sweep faraway and let their district remain in filth
[they let] the roads remain with potholes and stones
[...]
They say that Champion wants to take Inharrime
They don't know what I want
Is it forbidden to ask questions?
I only asked: so who has taken Inharrime?
And many people began to scratch their heads, claiming that Champion wants
to take Inharrime
I felt embarrassed when, on Inharrime day, the administrator said: 'Long live
Inharrime' and many people could not raise their arms as [a] consequence of the
potholes and stones in the roads
When you're walking, even good shoes fall apart because of the condition of the
road.
[...]
You catch the minibus from Mocumbi Mission to Inharrime
On arrival the cars have their shock absorbers and headlights ruined
This is why I ask my question, because everything is done any old way
(Champion, Hi mani anga nghola Nharrime 2011)*

Introduction

If we proceed from the assumption that, in music, citizens find a vehicle for broaching matters concerning social, political and economic life,¹ the extract from the Champion's composition transcribed above offers an excellent entry point to analyse decentralisation and its relationship to the provision of public services. In asking, 'who has taken Inharrime?', Champion draws the government's attention to the responsibility for providing an effective transport service, taking as his starting point the road as a public good. At the same time, Champion turns the question of the quality of the roads into a total social phenomenon in referring to the economic losses, to the impact on the health of citizens, and to their effective participation in political events.

In this paper, I discuss decentralisation and the provision of public services in Inharrime district. In addition to the growing body of research which stresses the institutional and legal conditions (Uandela 2012; Weimer 2012) for the provision of particular public services (Rosário et al. 2011; AfriMAP & OSISA 2012; Forquilha 2013), I propose that analyses on the provision of public services should pay attention to the processes that occur during the preparation for, and supply and maintenance of, these services. By paying attention to these different, but interrelated, stages, we open the possibility for an understanding of the challenges, expectations and frustrations of the various actors on the supply and demand sides of public services.

Data for this paper was collected during six weeks of fieldwork in Inharrime district. In June, July and August 2013, I interviewed staff from the District Planning and Infrastructure Services (SDPI), heads of localities, community leaders, and residents in the localities of Nhapadiane, Mahalamba, Nhanombe and Chacane. In Nhanombe, Napadiane and Mahalamba, I interviewed key actors in the road-construction process and used the information they provided as the basis for my discussion. At the SDPI offices, I observed a session of opening of bids and, at provincial level, I interviewed representatives and staff of the Provincial Directorate of Public Works and of the National Roads Administration (ANE). At these institutions, I also consulted documents concerning the rehabilitation and maintenance of roads in Inharrime district.

The discussion is based on the processes of rehabilitation and maintenance of the Mocumbi-Mejoôte and Inharrime-Panda roads in Inharrime district. The first is an unclassified road, under the responsibility of the district government. Work on the road was interrupted midway when the contractor abandoned the

1 For works that develop arguments based on this assumption, see Vail et al. 1978, Mungumbe 2000, and Israel 2009.

job. The second is a classified road for which ANE is responsible. Although it was concluded and delivered, it left some users unhappy, for they believed that the job ‘is not finished’. For years, both roads have been the subject of everyday conversation among the inhabitants of Inharrime and the songs of Champion, which I shall take up in detail later, are an expression of this.²

Starting from a perspective that assumes that the relationship between decentralisation and better public service delivery needs to be investigated rather than assumed,³ this project draws inspiration from studies which stress history and political economy (Trankell 1993; Colombijn 2002a; Nas & Pratiwo 2002; Nielsen 2012) and the interpretative dimension (Pina-Cabral 1987; Anand 2006; Dalakoglou 2010) of the planning, use and maintenance of roads. In these studies, the assumption that roads lead to development is called into question, and they explore the intentions and expectations of the various actors and the perverse effects of the construction and use of roads. As Colombijn notes:

A long decision-taking process precedes construction work; once the construction of a road is underway, the work may be stalled or halted, and after a road has been completed it stimulates people to seize the opportunity to adopt new patterns of behaviour and forces others out of previous customs, against their will. At each stage, before, during, and after the construction of a new road, the road leads to intense social interaction. (Colombijn 2002b: 597)

In this paper, I begin by verifying empirically under what conditions decentralisation in the roads subsector is materialised. Then, from field notes on two roads in the district, I analyse a stage in the construction process, as well as the uses of and discourses about roads in order to understand the perspectives of providers and beneficiaries of the transport service. Before concluding, I return to the debate on the relationship between decentralisation and public services and look at key factors in the relationship between providers and beneficiaries.

Decentralisation and the roads subsector in Mozambique

In Mozambique, roads are understood as essential resources for development. Most movement of people takes place along the road network linking, socially and

2 Even though many of the interviewees cited the songs of Champion and say they can recognise themselves within them, it is important to note that the songs are used here as illustrations, and not as faithful representations of the reality of the district or of the feelings of all the inhabitants of Inharrime.

3 Research in African countries has shown that there is not necessarily a positive correlation between decentralisation and the provision of public services. See, for example, Booth 2011, Uandela 2012 and Forquilha 2013.

economically, points of production and distribution of goods. It is also through roads that regions and resources in the country can be linked to supply and consumption markets. However, the roads subsector is one of those where progress in decentralisation has been slow. This slow progress is due in part to limited human and financial resources and the corresponding institutional arrangements in governments at district level. These constraints, publicly acknowledged by the leadership in the sector, are referred to in various guiding and programmatic documents, and plans and strategies to address them have been continuously redesigned.⁴

Currently, the Road Policy divides the management of roads between the classified roads (national, regional and district) and unclassified roads (vicinal – those roads that link tertiary roads, administrative posts and other population centres). The former are built and managed by ANE, while the latter are improved and maintained by the district government.

While at central and provincial level, ANE receives external financial and technical support, at district level, local governments rely on the Infrastructure Fund to coordinate their interventions in the sector. However, it is important to note that the approval of the Organic Statute of the District Government,⁵ which sets up the District Planning and Infrastructure Services, is a recent creation. In the case of Inharrime, until 2009, the infrastructures were included in the District Secretariat. In terms of human resources, the services relies on a senior staff member with training in Planning and Territorial Organisation, with an emphasis on tourism, a staff member with a diploma in public works, a topographer, a stonemason, a plumber, an accountant with basic-level education, and three cleaners.

In principle, decentralisation in the roads subsector should be accompanied by a strengthening of local capacity in the districts, municipalities and provinces so that they can rehabilitate and maintain the network of roads that fall under their responsibility. This strengthening of local capacity should include technical and management training for agents of the sector and capacity development of small-scale contractors.

This principle of decentralisation in the roads subsector is echoed in the discourse of the provincial government, which refers to the ‘involvement of the local governments and communities in managing the access roads that link communities to administrative posts’ and to the ‘involvement of local contractors and independent consultants in road activities’ (DPOPH 2013: 3). In practice, the management of classified roads remains centralised at provincial level, with

4 See, for example, Resolution no. 50/98 of 28 July, Decree 40/2012 of 30 November and MOPH 2007.

5 See Decree 6/2006 of 12 April.

capacity-building activities for local staff and contractors in the districts being few and far between.

As for the participation of local contractors and the population in interventions in the districts, the practice is far from meeting the provisions in existing regulatory documents. The will of seeing the emergence of a private sector in the province and districts with the competence to meet the demands for road construction, rehabilitation and maintenance has not yet resulted in actions leading to the emergence of local contractors. In general, Inhambane depends on contractors from other provinces, particularly Maputo and Gaza, to undertake road works in the districts. In Inharrime, there is not a single contractor working on the roads subsector.⁶

The participation of the population in planning process for roads receiving interventions is limited to the contributions made during the elaboration of the Social Economic and District Budget Plans (PESODs) and the presentation of needs made when high dignitaries and state representatives visit the district. As for the rehabilitation and maintenance of roads, the communities are called upon to sell their labour to the undertakings on the basis of the principle that labour-intensive interventions generate employment in the rural areas and, consequently, reduce poverty and improve the living standards of the local people. Information activities and public education campaigns about interventions in the sector are rare.

Ultimately, interventions in the road sector in the districts happen at two speeds – one determined by ANE and the other by the district government. As ANE and district government staff mentioned during interviews, the district only ‘follows’ ANE’s work and participates to a minimal degree ‘if there is a problem such as lack of collaboration from the public’.⁷ As we shall see below, this institutional arrangement not only separates procurement, implementation and inspection work, but also alienates road users.

Two vignettes from Inharrime

Located in the Southern part of Inhambane province, Inharrime district is bordered to the North by Jangamo district, to the South by Zavala district, to

6 Even in provinces where there are comparatively more contractors, the actions of the contractors in the districts are still limited. This fact is generalised across the country to such an extent that, as a result of the findings about the problem during the open governance visits, the President of the Republic instructed the districts to take greater responsibility for road maintenance and management. See, for example, the article in the *Noticias* newspaper, *Em busca de eficiente manutenção: PR que distritos a gerirem estradas* (In search of efficient maintenance, the President wants districts to manage roads).

7 Interviews: Inharrime, SDPI staff member; Maxixe, ANE staff member.

the East by the Indian Ocean, and to the West by Manjacaze district in Gaza province, and Panda in Inhambane province. Covering an area of 2 744km², the district has 13 main roads. Of these, the district government considers that three are in a good state, five in reasonable condition, and five in a bad state (Government of Inharrime 2011). This scenario varies with the time of the year and with the quality of the maintenance work undertaken. For example, while the 50km of national highway (EN1) that crosses the district may be consensually considered to be in a good state, the stretch of road from EN1 to Závora Beach has problematic sections which are improved for short periods after maintenance work. Likewise, the Inharrime–Panda road, also regarded as in good condition, is discussed in this paper precisely because the perception of the users is different from that of the technicians of the roads subsector.

Inharrime residents, local state representatives, and visitors all comment on the state of the roads in the district. During work visits by state representatives and by the President of the Republic, residents systematically refer to the unsatisfactory conditions of the roads, to the constant delays and to the abandonment of roadworks in the district. As a rule, local authorities and contractors point to rain as the main reason for the delays in roadworks and for the rapid degradation of roads.

In June 2013, a reporter from the daily newspaper, *Notícias*, noted that ‘the level of degradation of the roads is such that it is impossible to move along them in a vehicle or on foot’, and quoted the district administrator’s explanation that ‘January rains undid all our efforts since we had just completed maintenance and rehabilitation works, notably on the road that links the district government headquarters to EN1, was one of the best roads in town, the Inharrime–Coguno and hospital to EN1 roads’ (*Notícias* 2013).

In Inharrime, talk and debates about roads are not always about their negative aspects. There are roads that are considered to be good and passable during all seasons of the year, such as the road from the Mocumbi intersection to Coguno. This road is generally considered to be an example to be followed of other road interventions, particularly the works to be done on the stretch from the EN1 to the Mocumbi intersection.

A fruitful discussion of the decentralisation process and of the provision of public services must take into account the views of state representatives and of road users. This debate also needs to be enriched by notes on the history of local settlements, the context in which national policies are conceived, and a presentation of specific empirical cases. In what follows, I anchor my discussion on two roads, namely the Mocumbi–Mejoôte and the Inharrime–Panda roads.

Mocumbi–Mejoôte: An abandoned road

As a result of the continual appeals for regular maintenance of the Mocumbi–Mejoôte road made by the community of Mahalamba locality during work visits by the district administrator, preparations began in 2004 for an intervention along the 14km stretch that links the two settlements. In November 2007, the tender was awarded to a contractor from Gaza province who took responsibility for undertaking ‘regular maintenance and localised improvements’ to the road. The contract envisaged that the work would be concluded in four months. The contractor proposed an approach that combined labour-intensive work and the use of machinery.

In January 2008, with the support of the local state representatives in Mocumbi and Mejoôte, the contractor met with a group of residents willing to provide labour for the development in exchange for a remuneration. On the Mocumbi side, a group of 20 residents agreed with the contractor for weeding, and cutting and removing trees, with the use of shovels and hoes. They would be paid 50 meticais a day. On the Mejoôte side, the same process was repeated and another group was formed to undertake the same activity up to the border between Chambá and Mejoôte settlements (6km). Both groups agreed to start working while contracts were being drawn up. But, unlike the group from Mocumbi, the Mejoôte group agreed to use their own tools for the job. In practice, the workers on both sides also removed the soil from the 10-metre buffer on the road and opened ditches, since the equipment for these activities arrived late.

Owing to the delay in the arrival of the equipment, the intervention, initially scheduled to last just four months, was extended for a period of nine months. In addition to the delay in concluding the work, there was an additional problem: the groups hired locally were not being paid. After several complaints and threats to strike, they received a sum corresponding to the payment of three months. Later, after they had lost contact with the contractor, they took the foreman who used to sleep in the camp hostage. When they realised that he was in a situation similar to their own, they released him.

Contacts with the administrative post headquarters and with the district government did not produce the desired results. They then tried blockading the road, but local state representatives quickly convinced them that, as residents of the area, they would be the people most affected by the blockade if the few public-transport vehicles that ventured onto that road stopped doing so. Eventually, the few machines that were stationed in the campsite built for the contractor were removed under cover of night and, with the machines, went the hopes of local residents receiving the money owed to them. The work was not completed and, in

late 2009, the district government reluctantly recognised that the contractor had abandoned the project. This situation, dating from 2008, remained unchanged up to the time fieldwork for this paper was conducted in August 2013.

The issue of abandonment of roadworks is probably one of the issues in the public-works sector which has attracted the most media attention. For the Mocumbi–Mejoôte road, it was decided to hire a contractor who would complement heavy machinery with labour-intensive work in order to simultaneously reduce costs and create jobs, thus reducing poverty, as recommended in the sector's guiding documents (MOPH 2007). In this case, neither objective was achieved because maintenance and localised improvements to the road were not delivered and the local residents who provided labour were not duly paid.

The Mocumbi–Mejoôte example also shows that, while in line with the administrative decentralisation process and the district management of unclassified roads, there is deficient communication and a lack of accountability, monitoring and follow-up on the involvement of the communities. Communication between local-government representatives and communities was limited to the moment when the contractor was introduced to the communities and local residents were selected to provide labour. Once work started, local state representatives did not return to the community to follow up on the work being done. Also, when the contractor abandoned the project, no official information was given to the communities. Repeated requests for an explanation and for payment of the outstanding debt, made at public meetings during visits by local state representatives, only obtained promises as answers.

The inspection of works under the responsibility of the district administration is done with difficulties, given the limited number of competent staff available. Thus, community leaders and local state representatives who occasionally visit areas where interventions are taking place are the ones who do the technical follow-up concerning the work being done. As a result of the inspection model adopted, it was not possible to protect the interests of the residents who offered their labour for the development, to mitigate the effects of the abandonment of the project, or to find a solution for paying the money owed to local workers.

Inharrime–Panda: A durable road

One of the three roads in Inharrime district currently considered to be 'in good condition' is the Inharrime–Panda road. Following a sector guideline which advises that, whenever possible, local materials should be used for building roads, ANE undertook tests and built a road based on limestone soils, which seems to offer a model to be followed in the province. Unlike the predominant soils in the

region, limestone soil better conserves its integrity and the result is a road that requires few resources for maintenance and is passable during all periods of the year – a durable road.

The view of ANE's technical staff is in contrast with that presented by the residents and road users interviewed in the Inharrime district. Although they never questioned the passability of the road, many citizens regarded the work as incomplete because, as a resident in the town of Inharrime, explained:

in its current condition, the road lasts and resists the rains but the surface removes all quality from the work undertaken because the vehicles do not resist. You won't put your car for one or two years on that road.⁸

Another interviewee noted that the road is passable, but at the same time dangerous:

My brother turned over on that road but he was lucky. That road is very dangerous and there have been many accidents even when motorists are not travelling at high speed.⁹

The complaints of the Inharrime residents are captured in detail in one of the songs of the successful musician, Champion, in 2013:

*I bought a car; it was ruined by the road
I bought a motor-bike; it was ruined by the road
I bought a second; it was ruined by the road
I bought a third; it was ruined by the road
Now I have bought the fourth, which will also be ruined by the Panda road.
In Inharrime we are suffering because of the road
Poor us, we are suffering because of the Panda road.
Everything we do turns out wrong
You know, here in Inharrime there are youths who bought cars but parked them
because of the road*

*When we travel by minibus
Look at the suffering that happens
When we crash
Look at the suffering which is happening*

⁸ Interview with resident of Inharrime town, 13 June 2013.

⁹ Interview with resident of Chacane, 14 June 2013.

As we are jolted

Chorus (twice)

Inharrime, we cannot improve ourselves [grow]

We are not going to improve ourselves

Inharrime, we are not going to flourish

Because of the Panda and Mocumbine road

Old men no longer father children because their reproductive system is affected by the road

The pelvis is displaced because of the stones,

When a person walks, the pelvis is warped

I no longer see people making pregnancy appointments at the hospital since they no longer become pregnant because of the stones

We are asking for the stones to be removed

It's worth bringing a digger to take out all the stones and leave the old sand ... it would be better

Aye Inharrime we cannot develop because of the road

One of these days when going from Panda to Inharrime I found stones in a meeting

One group asked the other: you from the Panda–Maxixe road, what are you doing [producing]?

The Maxixe stones: we have managed to ruin 16 tonnes of taillights

Then the Inharrime stones said they had managed to destroy 15 tonnes of tyres

Then they ended [the meeting] with applause ...

It was then that I realised that poverty has entered [established itself] in our land ...

We are not going to do well because of the stones

It would be better to take away the stones and leave the natural soil that used to be here

We were used to our soil that was here, rather than the jolting that exists now

When you travel in the minibus listen to what it does ... girigirigido, girigirigido, girigirigido ... bam, bam, bam ... bá ... pfoklho! (Champion, Rua Nharrime–Panda 2012)

To the questions Champion raises in the song above, residents of Inharrime add the fact that the surface becomes excessively slippery when wet and that the white dust thrown up by traffic is damaging to a person's health. The same questions about the quality of the road were asked in the Panda district. This led prosecutors in both districts to raise the matter with the Inhambane Provincial Attorney's Office. As a result, the Inhambane Provincial Directorate of Public Works set up an assessment team composed of technical staff from several institutions to assess the matter. This multidisciplinary team concluded that the road camber users say to be one of the causes of accidents, 'corresponds to what was prescribed in the project, in order to drain the storm waters' and that 'the technique of using limestone presents no danger to public health ... however, inhaling dust of any kind can cause respiratory illnesses, and so care should be taken with any type of dust' (ANE 2011). The same document recognises the need to erect traffic signs to prevent vehicles from travelling at high speeds.

The difference in views concerning the Inharrime–Panda road between the beneficiaries on the one hand, and ANE and the provincial and district governments on the other, shows the extent of the alienation of the beneficiaries of the road. On the side of the government, the road is a success story that should be replicated because of its low-cost construction using local materials and its durability thanks to the use of more consistent soils based on limestone. But the users propose, in the extreme example of Champion, that the 'natural' road would be preferable because it would not cause accidents, health problems and economic losses. In the final analysis, this shows the inefficiency of the social work undertaken *a priori* and *a posteriori* regarding the participation of, and information given to, the community, thereby failing to place users at the centre of the provision of public goods and services.

Communities and public service provision

The district government prioritises its interventions based on production capacity, on the existence of a health post or school, or the size of the population. Planning the rehabilitation of access roads is done through visits of state representatives to the communities as well as through the exercise of participatory planning headed by district technical teams. In this type of planning, the channels of communication between the district government and the communities are not fluid and there are cases in which local state representatives also feel they have been marginalised. As one community leader and member of the local council explained:

We, as local leaders, feel that in the eyes of the communities we are implicated. The plan should go from the grass roots to the top. This is done and the plan is approved by the Local District Council. The problem is that when we turn to implementation, the plan is never implemented at 100%, both for roads and for water supply. One of the reasons is that there are always chargebacks but they don't tell us why.¹⁰

The communication service should also be rooted in the local history and imagination of the communities. Several interviewees considered the existing roads insufficient and presented preferences for some access routes used since the colonial period and which, if rehabilitated, would bring additional benefits to the local economy. In Nhapadiane, a primary teacher explained:

We have roads that we think are priorities. For example, the rehabilitation of the Mutamba-Coguno-Manjacaze road is always mentioned when members of the government visit. We have the Chicodoene-Mavela route. We have the road that goes from here [Nhapadiane] to Mocumbi. If these roads were rehabilitated, the surplus produced by the population would be able to find a way out. Even public transport operators would come in.¹¹

If the provision of public services is the State's responsibility, the supply of such services cannot be made to respond only to plans and statistics determined by the State. It is also the State's responsibility, as the existing regulations require that communication takes place between the service providers and their beneficiaries. In the case of the roads sub-sector in Inharrime, this communication is not taking place in a way that services offered meet the multiple expectations of beneficiaries.

Conclusion

Decentralisation in the roads subsector is still in its infancy. While the decentralisation project is expressed at the level of official public statements and documents, in practice there is just a deconcentration to the districts of activities and resources regarding unclassified roads. In face of the needs of the district, the infrastructure fund has not yet produced the desired effects in terms either of making the district responsible for the roads network or of the emergence of local contractors.

¹⁰ Interview with a member of the Nhapadiane Locality Council, 20 June 2013.

¹¹ Interview with primary teacher, Nhapadiane, 20 June 2013.

As has been shown in the cases of the Mocumbi–Mejoôte and Inharrime–Panda roads, the planning, execution, monitoring and maintenance of roads in the district do not place the users at the centre of the process. On the contrary, there is a distance separating the ANE from the SDPI, and separating both institutions from the users of the roads. For Inharrime and other districts in Mozambique, development will require the inclusion of the history and imagination of the beneficiary groups in the planning and offering of public services.

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