MOZAMBIQUE: STRUCTURAL ADJUSTMENT IN A WAR ECONOMY

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MOZAMBIQUE'S SIGNING of the Nkomati Accord with South Africa in 1984 may have represented an ethereal rapprochement between the two countries, but was quite significant and symbolic in another respect. The Nkomati Accord signalled the systematic and irreversible reintegration of the Mozambican economy into the ambit of Western financial institutions and donors, culminating in the adoption, in 1987, of the Programme for Economic Rehabilitation, known by its Portuguese acronym PRE.

Economic Rehabilitation

The year prior to the Nkomati Accord, FRELIMO had held its Fourth Congress, in which significant shifts in economic policy were agreed upon following the recognition of previous "errors" and "new" exigencies. The shift was towards a more peasant-based emphasis in development, executed through decentralised structures, away from the previous centralised strategy based on concentrated mobilisation of rural communities, and based on large-scale agricultural and industrial complexes. Nevertheless, the combined effects of an escalating internal guerrilla war, executed through widespread banditry and terrorism, and persistent drought, had gone too far for the announced policy changes to have had any significance. Thus in 1983 the Mozambican economy had been utterly dislocated, and the government brought to its knees. The government announced an intention to default on its indebtness and requested Western donors for a renegotiation of its loans and payments only to be rebuffed with the requirement that Mozambique reestablish normal relations with the IMF, which was immediately undertaken following the Nkomati Accord, leading to the PRE of 1987.

The PRE, although defensively claimed to be homegrown, is a typical IMF stabilisation and World Bank structural adjustment programme complete with a social dimensions aspect targeted at the vulnerable 10% of the population, notwithstanding how superfluous and cynical the latter aspect appears when practically the whole society requires rehabilitation. The PRE was aimed at resuscitating the economy by reversing the declining trend in gross domestic product, incomes and consumption and at creating an enabling environment for future economic growth. Typically, the programme entailed measures to stabilise the balance of payments account and the government budget, privatisation of public enterprises, deregulation, and devaluation of the domestic currency. Given the overly centralised nature and "socialist" thrust of the economy, the panoply of measures constituting PRE touched on almost all aspects of economic life in Mozambique, including the levying of fees on social amenities, such as health services. John Hanlon in his perceptive and empathetic book titled *Mozambique: Who Calls the Shots?* lists the following among the measures undertaken:

- "Devaluation to one-fifth the previous value, from $1-MT 200. The black market rate at the time was $1-MT 1500. (In terms of sterling, the devaluation was from £1-MT 66 to £1-MT 330. The black market rate was equivalent to £1- MT 2475).
- Consumer prices were increased: basic food and water and electricity prices doubled; beer, cigarettes, newspapers, bus fares, postage, telephones and a wide rage of similar items tripled (that is, increased three fold); and a few items including soap and paraffin (kerosene) for lighting increased five fold or more.
- Fewer prices were to be regulated. Only essential consumer goods and the main crops were to have fixed prices; for others, guidelines would be set and prices could be determined by companies within those rules.
- Wages were increased by between 50% and 100%. New wage rules encouraged bonuses, incentives, and profit sharing, and permitted greater differences between high and low paid.
- Private employers and the state were encouraged to sack unneeded workers "wherever possible"; the state should redeploy underused staff if possible.
- Prices paid to farmers were increased; maize was tripled, peanuts and beans increased four fold.
- A special MT 3 bn marketing fund was established to ensure that consumer goods reached the countryside, to stimulate peasant production.
- The tax structure was reformed and a more broadly based income tax introduced, with rates between 6% and 15%; state employees remained exempt from tax. Price rises on beer and cigarettes were largely due to excise duty increases. Total tax income was significantly increased.
- Rents were to be substantially increased. (All rented housing was state owned, and there were no legal private landlords.)
- Higher charges were announced for health care. (There was also no private health care).
- The state budget was made more transparent and included all subsidies, many of which had been hidden as bank credits. Price subsidies for the year were set at MT 7 bn ($35 mn, £21 mn after the first devaluation) and subsidies to state companies at MT 14 bn. Limits were imposed on the size of the budget and the current account deficit was capped at MT 30 bn.

— Bank credit regulations were sharply tightened and credit would no longer be used as a hidden subsidy to private and state companies. Interest rates increased substantially (although still to less than the rate of inflation, meaning that real interest rates remained negative).
— Aid funds were to be directed less to development projects and more to the purchase of raw materials and spare parts for local industry. However, SADCC transport projects, particularly the Beira corridor rehabilitation, continued to be encouraged.
— New legislation was planned to encourage national and foreign private investment."

Role of IMF/World Bank

It is patently clear that the Mozambican government had been compelled to resort to the usual IMF/World Bank pressures, given the economic quagmire the country was stuck in. Not only was gross domestic product declining at an alarming rate, but the parallel market was also increasingly becoming the normal-market, while formal market indicators increasingly receded into the official maginations of the government with little practical relevance to Mozambicans and donors alike. It is also clear that by resorting to the IMF/World Bank measures, the government saw as its immediate gain, the infusion of badly needed financial inflows for both maintenance and relief purposes.

The 1984 *Economic Report* estimated that the economic consequences of "20 consecutive years of war, aggression, destruction, [and] pillage" amounted to about US$5,5 billion. The following were listed as the major negative factors:

1. Effects of the colonial economy devastated by war, distorted, highly dependent and in recession;
2. Economic sabotage and abandonment of enterprises, equipment and vehicles of settlers who abandoned the country;
3. Southern Rhodesia sanctions and aggression from March 1976 to February 1980;
4. Damages from Limpopo/Incomati river floods in 1977;
5. Zambezi river flood damages in 1978;
6. Effects of non-declared war by the apartheid regime against the People's Republic of Mozambique:

6.1 Reduction of railway/port traffic from 1975 to 1983;
 6.2 Non-integral fulfilment of the agreements on miners by South Africa from April 1978;
 6.3 Reduction of the official number of Mozambican miners in South Africa;
 6.4 Direct aggression and those carried out through armed bandits by the apartheid regime in 1982/3;

7. Direct damages from drought in the south and centre of the country in 1982 and 1983;
8. Effects of the increase in oil prices from 1975;
9. Reduction in the export income due to drought deterioration of international terms of trade from 1980 to 1982 and actions of bandits armed by the South African regime.

Thus the Mozambican government's resort to the IMF and World Bank programmes as a guarantor for the inflow of external funds and normalisation of trade relationships is in part, understandable. It is nonetheless perplexing that, given the utter destruction and dislocation internal banditry had caused and given its continued menace, the Mozambican government and external donors had seen it fit to implement a traditional stabilisation and structural adjustment programme on an economy that was practically at war. One would have thought that the strategic sequencing would have entailed first, the establishment of a political enabling environment through peace which would then have been followed by an economic enabling environment. Indeed, if the funds infused into Mozambique so far since 1987 had been directed towards the containment of the war, the establishment of peace and the rehabilitation of social and economic infrastructure, even within the context of Mozambique's "socialism", a sounder basis for sustainable development would have been established.

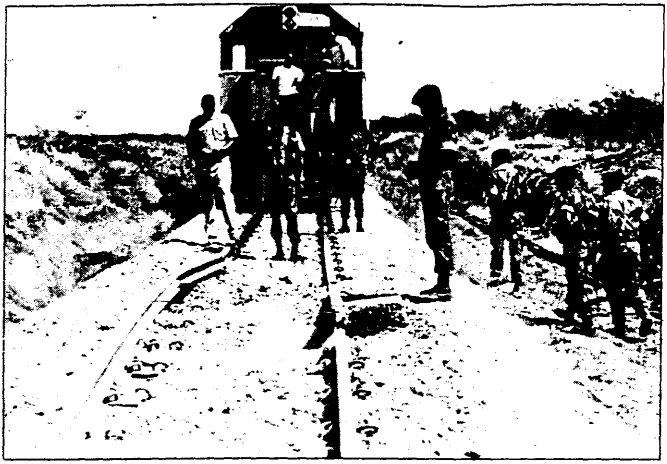
State of the Economy

The current prospects for a negotiated peace settlement in Mozambique may suggest that the foregoing issue on the sequencing of political and economic measures may perhaps be a moot point. However, it can be strongly contended, in the manner of John Hanlon, that the reverse sequencing that has actually occurred may place the country of Mozambique in an intractable economic quandary whereby the people of Mozambique may lose control over their own economy, the short-term gains from PRE notwithstanding.

The adoption and implementation of PRE in 1987 seemed to register some immediate gains. The Standard Chartered Bank's Africa Quarterly Review of December 1991 noted that "the economic situation changed dramatically after the 1987 reforms were introduced" and listed the following achievements:

— The ratio of investment to GDP trebled to 35% during the 1989-1990 period from 10% in 1986;
— GDP growth swung from a negative 8,6% in 1985 and 1,8% in 1986 to average more than 5% until 1990 when it slowed to 3%;
— Both exports and imports recovered strongly after falling steeply in the early 1980s, although the export upswing has not been maintained;
— The exchange rate was devalued massively from 43 meticais to the US dollar in 1985 to 1 815 meticais to the dollar in October 1991.
— Production of basic food crops rose 60% in volume between 1985 and 1990 with the main increases being increased output of beans and maize.

The Mozambican economy has apparently been growing at an annual rate of 5% between 1987 and 1990 and critics of the PRE are often reminded that the situation was not only worse, but denegerating, at a negative rate of growth of about 9% per year prior to the adoption of PRE. It may nevertheless be contended that not only are any statistics unreliable under present cir-



The destruction of physical infrastructure has made it difficult to move supplies to inland centres

cumstances in Mozambique, but that a number of considerations would suggest that, in the absence of peace and a strong role for the state in the rehabilitation and redirection of the economy, the so-called gains from the PRE are likely to be ephemeral if not illusory. On the face of it, the manner in which PRE is being executed not only skirts around the fundamental problems which the market alone cannot address, but also militates against the very conditions that need to obtain to make it work. Thus Mozambique may indeed be confronted with a double jeopardy: one related to the general indeterminate efficacy of structural adjustment measures per se, and the other, related to the constraints such measures are likely to face in the unique circumstances of Mozambique.

Now while it may be conceded counterfactually that the economic situation in Mozambique would have been worse in the absence of the PRE, it could nevertheless be argued that the so-called gains from PRE may be temporary if not ethereal or illusory. Further, it could be argued, rather counterfactually again, that a more viable option would have entailed a state-directed rehabilitation programme and the restitution of peace as preconditions to the PRE. The ambiguous nature of the apparent economic recovery may be a consequence of, first, the statistical reconversion and recognition of what were formally parallel market activities into official statistics; second, the redirection of goods and services away from the parallel and illegal markets onto the officially transparent market as these activities are legitimised by PRE; and third, the huge inflow of donor funds, foreign investment and non-governmental funds. The two latter consequences may not be sustainable in the long run, in the absence of economic rehabilitation.

Export Performance

The Mozambican economy has traditionally been dependent on primary agricultural exports such as cashew nuts, cotton, tea, copra and sugar, and in later years, on prawns from the ocean. In addition, the economy depended heavily on service receipts from transport fees and migrant labour remittances. In the course of the war, production of the foregoing was severely disrupted and curtailed, except for the export of prawns. Now, nothing much has transpired since 1987 to reverse the institutional and infrastructural disruptions that have underpinned the drastic fall in production. In the absence of other reliable indicators of production revival since the PRE, attention may be called to export performance since the trough year of 1985, prior to the implementation of the PRE.

Export performance since the PRE has not been particularly impressive, especially given the amount of external funds that have been infused into Mozambique and given that the rejuvenation of exports is a cardinal objective of structural adjustment. Exports of goods increased from US$77 million in 1985 to US$97 million in 1987 and US$103 million in 1988, but declined to US$93 million in 1989. Service receipts from transport and migrant labour had increased from US$80 million in 1985 to US$114 million in 1988, resulting in a doubling of the current account deficit.

During this period the inflow of donor funds almost doubled.

All indications seem to be that the initial growth stimulated by the PRE and the inflow of external funds may be petering out, as emerging economic activities begin to run into the fundamental bottlenecks of a war-ravaged economy also afflicted with drought. Thus both the Standard Bank Quarterly Review of 1992/3 and the SADCC Industrial Review of 1992/3 paint a pessimistic scenario for the performance of the Mozambique economy in the 1990s unless peace is restored.

Internal Disruptions

As matters currently stand, the internal transportation infrastructure has collapsed and the transportation fleet has been drastically reduced, thus gravely constraining the revival of inland production activity; more than one-third of the rural population has been displaced, fleeing across the border or to the cities where about one-quarter of the urban population are refugees; educational and health services have been drastically reduced and impaired because of the destruction of physical infrastructure and the difficulty of moving supplies to inland centres, thereby not only reducing human capital formation, but debilitating it socially and psychologically as well; the administrative infrastructure has been depleted of personnel, partly as a consequence of an increasing number of civil servants seeking greener pastures in the donor and NGO growth industry engaged in relief activities, and partly as a consequence of moonlighting to supplement meagre salaries; and migrant labour opportunities and earnings are also diminishing as South Africa begins to address its own domestic concerns. In 1989 about five million Mozambicans were destitute and the country depended on donors for 90% of its food requirements.

Thus Mozambique currently lacks the enabling environment for structural adjustment and stabilisation measures to work. It lacks the physical and human infrastructure needed, because these have collapsed, and in the absence of peace, the inflow of donor funds has not been able to rebuild this infrastructure, and neither will the proper alignment of market incentives through freeing prices, enable the market to address infrastructural bottlenecks, since the task is essentially a public concern, and also, rather too monumental for a private undertaking. Indeed, what is currently transpiring in Mozambique is that foreign investors are flocking into the country with pre-emptive investment strategies in anticipation of peace. The strategies entail placing claims on resources and localities protected by semi-private security apparatuses and supported by narrow rehabilitation schemes. Thus current foreign investment strategies appear to be holding strategies, in anticipation of peace, and have yet to yield reasonable returns. Further, the very nature of the pre-emptive and holding strategies is likely to hamper a rational approach to overall social and economic reconstruction as little empires would have been built and solidified. Indeed, the paralysis in general administration, coupled with an inaccessible hinterland and the stripping of power from government that the PRE entails, is transforming Mozambique into a semi-anarchic free-for-all speculative investment frontier territory.

Many observers have commented on the sudden hive of economic activity in Maputo, Beira and other protected locales and corridors since the PRE. This activity is however, superficial and illusive since much of it is a consequence of the sharp increase in consumer and intermediate imports destined for the urban areas which are generally out of reach of the majority. Generally, the economic conditions of peasants have not changed much from their permanent state of destitution, and urban dwellers have been facing declining real incomes as prices escalate. In addition, donor fatigue seems to be setting in as their funds are largely channelled into relief and maintenance expenditures unable to appreciably shift the production frontier outward, and foreign investor speculation may have also peaked. In a situation such as this, the limits of the market in Mozambique's specific circumstances will increasingly become apparent. Indeed, it will become increasingly obvious that the PRE may have put the cart before the horse and that, in the absence of peace and a strengthened government role directed at social and economic reconstruction, Mozambique may have jumped from the frying pan into the fire by prematurely embarking on a full-fledged structural adjustment programme.

Future Prospects

Measures such as those in the PRE may be needed in Mozambique, but can only work, if at all, after peace and reconstruction. The danger now is that the PRE may have stimulated a capital inflow which, since it cannot be effectively invested, merely increases Mozambique's debt burden. Between 1984 and 1992 the external debt and the current account deficit have more than doubled, while capital inflows account for almost 50% of gross domestic product and loan repayments plus interest are more than twice the value of exports.

Further, in the wake of the PRE-induced economic free-for-all, speculative external and domestic private economic interests are emerging and entrenching themselves in a manner that might severely constrain the government's attempts to reconstruct and rehabilitate the economy when peace finally prevails. Finally, it is important to ponder whether, when peace comes, donors will continue to pour more money into Mozambique, which is currently one of the highest recipients of aid in Africa and ranked the poorest country in the world by the World Bank, or insist on repayments of their current loans. If the latter, then Mozambique has already been mortgaged to external donor and private-sector interests, in which case the country will face an uphill task, not only in rehabilitating and reconstructing its society, but also, in attempting to redirect its economy, even market-based, towards a preferred vision.

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