

BRIEFING NOTE

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Mozambique Disturbances: An Analysis of the Underlying Causes

Background

Starting from a difficult post-conflict base Mozambique has enjoyed a high level of GDP growth of approximately 6.8 per cent since 1992 (WDI 2009). However, a substantial contribution to the high economic growth has been a few so called Megaprojects which have large turnovers but limited linkage to the local economy in the terms of employment creation. Since the end of hostilities, the country has experienced a drop in the proportion of people living below the national poverty line. In 1997 some 69.4 per cent of the population were considered poor, a number reduced to 54.1 per cent in 2003¹. The reduction in poverty was particularly prevalent in the rural areas. However, it was largely a result of increased agricultural production through expanded area under cultivation and not through productivity gains. Unfortunately, there are indications that in recent years the progress in alleviating poverty has been halted on a national level. Another important observation is the high mobility between income quartiles particularly in the rural areas, suggesting a high level of vulnerability (Mather et al 2008). Regardless of the high growth rate of GDP and the significant drop in poverty levels, overall economic growth has not been pro-poor². Rather there appears to have been only a relatively weak link between the changes in poverty levels (particularly rural poverty) in the country and the high economic growth rates. That being said, if assessing poverty more broadly significant progress has been made towards increasing people's access to basic services. Human and social development indicators such as child health and school enrolment rates have all improved. However, other indicators such as maternal health appear to have recently started to decline. There are also some concerns about the achievement levels of children in primary and secondary school. Overall, Mozambique remains one of the poorest countries in the world where more than half of the population relies on the informal rural economy, and an already high income inequality has been increasing, with the Gini coefficient increasing from 0.44 in 1997 to 0.47 in 2003 (UNDP 2009b).

Immediate Causes

The growing inequality, persistent poverty and lack of opportunities create an unstable social environment when large groups of the population are ill-equipped to deal with external economic shocks. The direct causes of the riots were identified as the rapid cost in the cost of living which has mainly affected the urban population. The main price increases have been for food and fuel. The price of rice in Maputo has increased an estimated 27 per cent, potatoes by 17 per cent and vegetable oil by 31 per cent over the last two months. During the same period of time the price of wheat flour also increased some 34 per cent (WFP 2010a). The overall inflation rate (12 months average) on main food products is estimated to 25 per cent in August (DPG Meeting 15/9-10). These increases in general price levels are also significant to be large particularly when compared to recent historical patterns.

¹ While the national poverty lines suggest that some 54.1 per cent of the population is poor, using the international poverty line of 1.25 USD per day, the number increases to an estimated 74.7 per cent (WDI 2009).

² Pro-poor growth is generally defined as when the economic growth rates of the poor are higher than that of the non-poor. However, some liberal economists define pro-poor growth as when the poor experience any improvement in their income level regardless of the growth rate of the non-poor.

The cause of the rising food prices is twofold: rising international prices and currency fluctuations. Given that Mozambique is a net food importer, the price of food, particularly in the urban areas is sensitive to both changes in international prices as well as exchange rates. The depreciation of the metical against the currencies of main trading partners has exaggerated the impact of rising world market prices. Since end August 2009, the metical has depreciated some 50 per cent against the Rand, and more than 30 per cent against the USD (DPG meeting 15/09-10). This depreciation would directly result in higher prices on imported goods. As a consequence the double effect of a depreciating currency and increasing global food prices is directly transferred on to the (urban) consumer in the country. However, the price fluctuation which takes place on the international market is not fully reflected in the national prices due to government intervention. Also, it should be noted that the rising prices on imported food products may have a positive impact on the domestic food producers who are able to access markets for selling their produce and may contribute to lowering poverty levels in rural areas. The depreciation of the metical was not unexpected as the IMF in 2009 considered the currency overvalued relatively to the currencies of the main trading partners. The metical is still considered overvalued (short term) by both the WB and IMF (DPG Meeting 15/9-10).

The increase in fuel prices has been significant. The price of petrol has risen from some 23 metical per litre in April to 40 metical in August, an increase of almost 75 per cent. This is the result of the government gradually lowering a large fuel subsidy which was applied after the 2008 riots. While the increase in fuel prices has contributed to rising inflation, the higher fuel prices themselves have probably not been a key contributor to the riots. The price of diesel is still subsidized and public transport prices have not increased³. The poorest of the urban population (or rural population for that matter) are unlikely to be the main beneficiaries of the fuel subsidy (though kerosene has also increased in price). Furthermore, analysis indicate that the increase in transport cost associated with the higher fuel price for the wholesalers only slightly augments the final price of staple foods (WFP 2010). Overall the fuel subsidy has been considered poorly targeted and mainly benefitted the middle and upper class urban population.

Another factor which has contributed to increasing tensions is the absence of a platform for dialogue between the affected groups and the political leaders. The causes for introducing the price increases particularly on power and water were poorly communicated to the consumers, which in turn contributed to provoke the reactions witnessed in the streets. Currently there is an absence of a strong opposition, independent trade unions, strong NGOs or other institutions which would normally be representing these groups. The lack of a channel for engaging with the government leaves youth as well as other disenfranchised groups with few options for being heard. The police's heavy handed response did little to facilitate any establishment of communication.

Underlying Structural Issues

While the price increases and the lack of dialogue were the triggers of the disturbances the root causes are more of a more serious structural nature. The absence of jobs and opportunities will not be alleviated by subsidies or any of the other short term measures the government has introduced. However, the measures did present an immediate effect for the urban poor. It is noted that the measures are temporary and are supposed to be assessed in December of 2010.

Poverty is widespread in the country, and the economy remains largely based on agriculture. With some 82 per cent of the population engaged in primary sector (mainly subsistence agriculture) and only three per cent in the industrial sector (IAF 2003), the Mozambican economy is ill equipped to generate the level of productive employment which is needed to accommodate a growing labour force. Furthermore, with a population growth rate of 2.4 per cent combined with widespread un- and underemployment, the need for creating employment will remain a persistent problem for the foreseeable future. The inability of the formal sector to generate

³ An agreement supposedly exists with the passenger transport operators that transport prices can be raised if the price of diesel exceeds 31 metical per litre. Currently the price remains at 30.98 metical per litre

employment causes people to be pushed into the informal economy, often as self-employed as a survival strategy. In Mozambique, the self-employed are estimated to account for 20 per cent of the urban labour force (WB 2008b:36). An additional issue is that the vast majority of the labour force is un- or semi-skilled which makes them poorly suited for engaging in productive self-employment and they lack the skills to obtain wage employment (WB 2008b: 38). The general low education level of the workforce contributes to the growth in self-employment in areas with marginal returns. The prioritisation by the government of attracting FDI for capital intensive investments have been successful in as much as significant levels of FDI has been attracted to the country. However, these investments have failed to contribute to much employment creation or act as a promoter of local industry (UNDP 2009). The potential for actively promoting MSE development is negatively affected by the tightened financial policies which include increasing interest rates. The Bank of Mozambique FPC rate is 15.5 per cent, translating into a lending rate of some 20 – 25 per cent, rendering most investment projects unprofitable.

The latest events and the rising poverty levels only emphasizes the need for promoting inclusive growth and target the sectors where there is the greatest potential for creating jobs i.e. primary sector and MSEs. However, any intervention to rectify the problem will be hampered by an absence of a comprehensive overview of the national labour market structure, skill levels and growth areas which hampers the development of policies for generating productive employment.

In this context it should be noted that much attention has been given to the food insecurity which affects more than half of the population in the country (UNICEF 2006). Increasing food production through improved productivity is likely to have a significant impact on reducing poverty and food insecurity in the rural areas. However, it will do little to improve the situation for the urban poor in the short to medium term. If domestic food prices are lower than the international prices it will encourage producers to export their produce rather than selling in the local market. If prices are kept artificially low through price control mechanisms (with the exception of subsidies for producers) it will benefit urban poor at the expense of rural producers who will lose (part of) the incentive to increase production, or even engage in the growing of cash crops in the first place.

With regards to stimulating national demand for domestic agricultural production, it is noted that Maputo has weak linkages to the rural economy. This is mainly a result of Maputo being distant from major producing areas in Mozambique but has relatively easy access to produce from South Africa. The increasing demand for food in Maputo does not translate into an increasing demand for domestic agricultural production. The government developed an action plan for food production in response to the 2008 riots. However, the impact of this plan is yet to be felt.

An important issue is that with limited financial space in the public budget the expenditure related to the introduction of temporary measures by the Government means less funds available for rural development, everything else being equal. The donor community has not at this point shown much interest in providing support towards funding these measures. The unrest also raises the serious concern that the government shifts its priorities to seek to address urban poverty, thereby neglecting rural poverty. The rural population is, in addition to constituting the majority of the poor, also more likely to be deprived of access to basic services, including education, health and sanitation. If Mozambique is to achieve the MDGs by 2015, rural poverty will have to remain a primary focus of government policies. Another key concern would be that if rural poverty is not addressed effectively, it could contribute to an increased rural to urban migration which the current economic structure of the urban economic sectors would be poorly placed to accommodate.

Another important point concerns public transport. An announced price increase in public transport was the main cause of the unrest in Maputo in 2008. For now transport prices have remained stable. However, the profit margin for transport operators is gradually being eroded by increasing inflation without the possibility of compensating through price increases. Consequently the quality and quantity of the public transport (particularly the minibus services) is declining. This should also been seen in relation to increasing international prices on diesel

and the falling currency which adds to the pressure for either a price increase or a demand for increased subsidies for the operators.

Summing up

The immediate cause of the disturbances was as a result of people seeing the purchase value of their already low incomes decrease further and the government seeming unwilling to act to alleviate the situation or explain the reasons for the price increases. Though the Government reversed the price increases and introduced a number of measures following the riots, these will do nothing to address the structural problems which caused the disturbances in the first place. The deep rooted structural problems create a situation where the poorest of the population will continue to be unable to absorb any price increases or other external shocks, thereby potentially forcing the government to introduce or maintain additional subsidies on essential items.

The consequence of the political choices which the government has made is that the room for manoeuvre is becoming increasingly limited. The potential cost of maintaining subsidies and special measures to alleviate poverty in urban areas, will to some extent limit the government's ability to address the root causes of the problem. The development model which Mozambique has been following in the past decade has contributed to creating these structural issues. To move away from this situation, long term economic planning is required which clearly lays out the strategies for addressing both urban and rural poverty in a sustainable manner. The successful development of such strategies is likely to require policy advice and support from the international community. Unless an employment intensive growth model is adopted which promotes inclusive and pro-poor growth, it is likely that in the longer term the situation will become unsustainable. Furthermore, if the government does not demonstrate a strong commitment to address these structural issues, Mozambique is unlikely to reach several of the MDGs by 2015, not to mention failing to address the root causes of poverty and food insecurity in the country.

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