

SOCIAL STABILISATION and INCOME REHABILITATION: Demobilisation Gratuities, Business Loans, Housing, Small Scale Enterprise and Urban Incomes

Introduction

Peace, elections and political reconciliation are a foundation for social stability and absolute poverty reduction but not, by themselves, adequate to achieve either. Five additional areas in which action could make a substantial contribution to both are:

- a. demobilisation gratuities to enable income generation and to avert reversion to (now privatised) income generation from the barrel of a gun;
- b. business loans for potentially viable would-be or (preferably) expansion/recapitalisation oriented business persons;
- c. 'informal' (owner contracted/artisan team built) low cost housing promotion;
- d. small scale ('informal') enterprise facilitation and encouragement;
- e. urban household income rehabilitation through wage enhancement and labour intensive public works.

Demobilisation Gratuities

There are two cases for demobilisation gratuities:

- a. equity - most combatants were required (by conscription or kidnapping) to enter the armed forces in which they served and have little or no preparation for any other livelihood;
- b. safety - economically desperate men trained in the use of weapons (and especially officers) are dangerous.

The first argument does - in the context of reconciliation - apply to Renamo as well as government of Mozambique personnel. It is not reduced by the extremely high desire of 90% of armed forces personnel to return to civilian life. (Indeed it is made potentially easier to finance thereby as an army of 10,000 persons is less costly than one of the 30,000 envisaged. Internal security does not require over 10,000 and there is no realistic probability of a need to defend borders - except against smugglers which requires rather different personnel as does protection of animals.)

The second argument is quite simply that \$150 million - on a scale of \$500 per private through \$20,000 per general - would be money well spent if it made a substantial contribution to sustaining law, order and tranquillity. The scale factor is not self-evidently equitable but is justified on the pragmatic grounds that disaffected privates riot or become somewhat inadequate armed robbers, lieutenants form robber bands or protection rackets while generals organise coup attempts and large scale crime syndicates.

The basic problem is finance. The only sources which seem at all likely to respond are:

- a. Japan - increasing programmes in Africa and with funding for peace promotion/demilitarisation support, it has few articulated ideas on how to spend;
- b. Switzerland - potentially interested but not, to date, satisfied with coherence of proposals.

Unless funds beyond the paltry sums from the Rome Conference pledges are secured no adequate programme can be funded.

Three complementary programmes may be easier to fund:

- a. demining based on training say 1,500 ex-combatants and deploying a team of 10 in each district to complement large and medium scale road demining. This requires - perhaps - \$5 million for training, \$20 million for three years salaries, \$5 million for injury and death benefits (inevitable as the work is inherently and unavoidably unsafe); (\$35 million)

- b. customs and game park police (possibly one force as border area game parks are smugglers' as well as poachers' paradises). Again perhaps 1,500 ex-combatants with \$5 million for training, \$15 million for first three years salaries, \$10-15 million (plus at least 3 new or reconditioned helicopters) equipment; (\$30-35 million)
- c. general police build-up (including fuller training for the 5,000 odd GOM troops apparently already converted into police) to create a trained force of at least 10,000 excluding ceremonial/guard and traffic police. Training \$5 million, salaries for three years \$35 million, equipment \$10-15 million. (\$50-55 million)

Possible funders include:

- a. EEC - especially as to demining, customs/wild animal police;
- b. Switzerland - if unwilling to back general gratuities programme;
- c. USA - very keen on law and order and potentially interested in both environmental and narcotics trade prevention aspects of customs/narcotics police;
- d. World Bank - customs police perhaps not as funder but at least as fund mobiliser.

The proposed salary structure is:

- a. demining - \$50 to \$200/month;
- b. Customs/Game Park - \$50 to \$200/month;
- c. General - \$50 to \$200/month but more bunched in \$50 to \$100 grades.

The rationale is that only too many private sector individuals and enterprises will pay ('privatise') the police if government does not pay halfway decent salaries and that demining is inherently dangerous. As these are uniformed services, scales not identical to non-uniformed civil servants are presumably practicable.

Business Loans

There is an urgent need for capacity to make (as well as financial resources to make) term loans to businesses, especially:

- a. rural produce buying-transporting-consumer goods and housing/agricultural tools and inputs selling commercial enterprises ("itinerantes");
- b. small to medium urban manufacturing, construction, maintenance and repair and processing enterprises (individual, partnership, co-op, or - occasionally - incorporated company).

The Commercial Banks cannot (BCM, BCPD) or will not (Standard-Totta, new foreign) play this role. The Gabinete do Emprego in labour can do "b" if it has a domestic financial institution to use (BCPD is an almost unworkable partner) and meticais (as well as \$) resources.

The best short term prospects are via the Swedish initiative to set up a term loan institution linked to the Scavia distributors and - presumably - focusing on business vehicles. EEC may also move in that direction (it has a consultants' report advising it to) while USAID's leasing (hire purchase) proposals - if broadened beyond serving as a vehicle for privatising DPCCN, Agricon and other state owned transport fleets - are also potentially useful.

On the face of it \$10 million to \$15 million a year (half lorries) could be used with the key constraint capacity to analyse loan applications and manage loans. An external enterprise partner and - at least for 3 to 5 years - external top management are essential. Speed is very important if the rural commercial network is not to choke off rural marketed output recovery.

Such loans must be on a commercial basis. This need not rule out 20% to 30% interest or 12 to 18 month grace periods in respect to capital repayment. It does rule out making them

automatically available to demobilised combatants or any other socio-politically defined category.

Japan would be a useful partner in the Swedish venture - they are a logical vehicle and machinery supplier with some flexibility and upside potential in aid budget.

Low Cost Housing

Low cost housing cannot be produced by the large or medium scale construction sub-sectors. For them the lowest attainable unit level is likely to be about \$3,000. To be accessible to at least half of urban Mozambicans, the cost cannot be over about \$1,000.

At the \$75 absolute poverty line rent of (or savings toward/repayment of loans for) housing cannot be much over \$10 a month or \$120 a year. Assuming an 8 to 10 to 1 ratio between rent and capital value gives \$960 to \$1,200. At least half of urban Mozambicans can afford less than that. (The rapid increase in problems of renting rehabilitated high rise flats illustrates how narrow the market for middle/upper income housing is.)

Using semi-traditional materials and methods, semi-permanent (10 to 15 year life expectancy) dwellings can be built by the 'informal' housing sector for perhaps MT 4,000,000 to 6,000,000 (as of 1993 probably 5,000,000 to 7,000,000 by late 1994).

The sector seems to work within the following parameters:

- a. owner contracts with building team;
- b. owner purchase of (or immediate payment for) building materials;
- c. owner supervision of building team (a major cost saving relative to medium to large scale contractors);

- d. staged work whenever and so long as the owner has money to contract for a phase in construction (e.g. foundations, walls, completing one room, complete roof, finishing basic dwelling, adding a room/rooms);
- e. construction teams organised by a skilled worker who provides tools and hires 4 or 5 unskilled workers.

The main routes to enhancing construction would appear to be:

1. increasing household incomes (to allow payment of higher - e.g. \$20 a month - rents and savings toward home ownership);
2. encouraging 'traditional' house construction for rent (e.g. a Swahili compound house of 8 to 10 rooms with 7 to 9 let to 5 or 6 renting households and 1 to 3 retained by the owner). This is a logical use of demobilisation and voluntary retirement gratuities as it is a relatively simple and safe business;
3. exploring the practicability of loans of up to \$1,000 to foremen for tools and equipment. (The problem is achieving a high recovery rate at low administrative cost.)
4. research on designs and materials starting from what now exists and adapting/improving in terms of new knowledge and the greater access to materials now possible with peace. Followed by workshops for skilled team leaders.

Loans to owners/occupiers (except perhaps landlords who might be served with \$1,000 to \$5,000 loans perhaps via the institutions proposed in the previous section) is not very practicable. \$500 to \$1,000 loans have very high management costs relative to loan levels/revenue and recovery rates are likely to be poor while foreclosure and reselling is not a very usable procedure (especially if the dwelling is only half complete).

Building regulations need to be reviewed. Apparently few apply to canisas but this may be non-enforcement not non-existence and, if so, 'better' enforcement would have disastrous effects.

The problem of 3 to 10 year phased construction cannot be reduced much until nominal interest rates fall to well under 20% (probably not over 10%) a year. The reason is cash flow constraints since the owner cannot afford to pay 35% interest even if the (non-realizable) capital value of dwellings rises at approximately 35% a year.

The EEC has generated several studies. As a group they provide the basis for a working group to review next steps.

Urban Small Scale Enterprise Facilitation

The 'informal sector' is not a useful category for most policy measures. It includes very petty through less petty to moderate scale commerce and services as well as small scale construction, processing and manufacture. In the latter areas up to 80% of those involved are (non-recorded) wage earners, not owner/proprietors.

For commerce two policy measures could be useful:

1. greatly simplifying licensing and making it user friendly (low fees/prompt licence insurance and renewal);
2. creating new market areas (not necessarily with facilities beyond levelled ground and water taps) in locations user friendly for consumers and traders (e.g. on vacant lots in the urban centre).

Beyond that it is hard to devise practicable programmes because trainers with relevant knowledge are quite hard to secure, services such as bookkeeping are not widely sought and loan management/recovery would be well nigh impossible or impossibly expensive.

For other informal and medium scale registered enterprises more practical steps can be identified. The first two also apply to commerce:

1. create a one stop licensing office in each major town and 2 or more in each city of over 250,000 population. It should have desks for all necessary licenses (with others abolished) and should have a maximum application to acceptance/rejection (with stated reasons to facilitate reapplication) of 6 weeks (or less);
2. limit profits tax to incorporated enterprises and charge income tax on all other businesses at the same rates as for other income.

(# 1 is likely to require paying salaries at rates proposed in the last section of this paper to reduce the incidence of generalised, privatised user fees by officials and to secure adequate personnel morale to act expeditiously.)

Other measures include:

3. loan access (discussed above) - Gabinete do Emprega has substantial experience. Social sector (e.g. churches, mosques, co-ops) organisations and NGOs should be encouraged to make genuinely low cost loans (not high cost loans in kind as is typical of - e.g. - World Vision) to units too small to be suitable for any normal commercial financial institution to serve;
4. training - based on surveys of what enterprises want for owners and workers. (Some experience exists but on a scale disproportionate to probable need.);
5. service provision - at a charge - based on surveys of demand in areas such as basic accounting and technical assistance to setting up co-operative purchasing arrangements among several enterprises to secure bulk/wholesale purchase discounts;
6. investigating the demand - if any - for sight and simple rental building provision at rents at least covering full maintenance and management costs;
7. merging all three "small enterprise" units into one Instituto led by the present Gabinete do Emprega or if that is not practicable because of parent ministry and funding agency

rivalries, creating a coordination council involving the three institutions plus Commerce and Industries and Labour.

8. Building up a data bank on small/medium scale enterprises and on programme successes/failures to facilitate future policy development.

All of these - except the loan expansion - could be handled by the existing units with modest budget increases and/or would involve procedural shifts not additional spending (e.g. one stop shop licensing, tax revision).

The total impact is highly uncertain - especially as the sector is already growing. However, net increases in enterprise numbers and employment of 500-1,000 and 7,500-15,000 a year respectively may be a reasonable rough guesstimate - or target. Assuming 7 persons to a household that would benefit (not completely support) 50,000-100,000 urban Mozambicans a year (about 2% to 3% of urban population).

Urban Household Income Rehabilitation

(Rural Household income rehabilitation is already conceptualised and - to a point - articulated.)

The demobilisation, loans, housing, small scale business proposals will generate substantial income streams which will have multiplier effects by increasing effective demand for production by other enterprises and the sector familial. However, two additional components are needed:

- a. efficiency wages in government service (\$50-\$500 a month range by 1997; \$30-\$350 in 1995);
- b. urban labour intensive infrastructure works - especially in canisa areas.

Wages of \$10-\$100 (excluding uplifts for graduates which have, in any event stalled) are not efficient. Nobody can be expected to work long, hard and without side payments at these rates when the monthly absolute poverty line expenditure requirement for an urban household of 7 is \$75 a month. In fact, efficient private enterprises pay more so the prime target should be the government pay scales.

Government wage increases would have a positive impact not only on other wages but also on 'informal sector' wage and self-employment incomes. Both tend to be related to/set with regard to government pay. And the largest 'informal sector' market is recorded wage earners so that an increase in wages boosts 'informal sector' demand and incomes.

To implement this policy requires - say - \$50 to \$75 million a year. Of that at least two-thirds needs to be secured by reallocating foreign aid from technical assistance to supporting an agreed government pay scale covering at least all senior professionals, technicians (including, e.g. foremen and bookkeepers), health-education-agriculture-water-works-police personnel.

Clerks and junior administrators as well as messengers and quasi domestic employees pose special problems because we employ more than we need. Tanzanian experience suggests voluntary retirement for a \$1,000 gratuity (\$20 million for 20,000) might well be acceptable to many persons in these cadres and might be acceptable for World Bank finance.

The shift of \$50 million a year from technical assistance would not reduce capacity. Most of the 2,500 odd TA personnel actually fill middle level operational posts vacant because 3,500 odd qualified (graduate or equivalent) Mozambicans work abroad (usually in posts well below their qualifications). At \$300 to \$500 a month many (say 1,500-2,000 over 3 years) would return and new graduates could be kept as well as recruited.

The problem is convincing donors. The only usable channel for attaining general donor support is the World Bank. Their graduate level scheme accepts the principle but is too restrictive as to coverage. The efficiency argument for, e.g. nurses, bookkeepers, foremen, extension workers and teachers ought to be saleable to them.

Labour intensive works are usually perceived as a rural concern. That is too narrow a view - as demonstrated by some aspects of the Urban Rehabilitation Project. Maintenance, even in the cimento, can be both labour intensive in most aspects and efficient.

However, the greatest needs and opportunities lie in the canisa areas. Basic roads, drainage ditch, water supply, public buildings (schools, clinics, etc.), land levelling and plotting (not formal surveying) in both the construction and maintenance phases could be both labour intensive and cost efficient.

Assuming funding (by reallocation of external capital budget support or conversion of declining emergency expenditure support) is available, 10,000 unskilled employees (plus 500 foremen/skilled and 50 professionals) could be employed at a wage and salary bill of perhaps \$15 million with a total annual cost (including tools and some equipment as well as construction materials of \$30-40 million (perhaps 5% of total non-technical assistance external funding).

Conclusion

The programme thrusts set out above will not create adequate livelihood opportunities for urban Mozambicans. But they would (directly and indirectly) create perhaps 25,000 to 40,000 new livelihoods and enhance 150,000 to 200,000 existing ones. That would significantly benefit about 1,500,000 urban Mozambicans (50% of urban population) and would do so in ways which enhanced urban production and capital stock. The total cost is of the order of \$175 million excluding demobilisation gratuities and early retirement. That is perhaps 20% of total external aid and - in principle - could be financed largely by reallocation.