

**RECONSTRUCAO: The Road from
Emergencia to Desenvolvimento -
Livelihoods and Macroeconomics**

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Structure, Dynamics, Implications of 1992 Economy

1. Mozambique's economy is characterised by very low levels of output per capita (under \$100) and very high levels of absolute poverty (about 65% pre-drought). It is also characterised by high (20% to 40%) rates of price increase despite stringent credit ceilings and negligible government domestic borrowing and by under-utilisation of both urban (including manufacturing) and of rural production capacity related to inadequate demand, and to lack of credit for normal commercial activities as well as import constraints and insecurity.
2. These characteristics have been largely caused by the war and by the terrorist strategy employed by Renamo and are now gravely exacerbated by the drought. However, the running down of insecurity and of the war will not by themselves readily or speedily restore an overall forward momentum to the national economy. Still less will it directly reduce absolute poverty. Indeed demobilisation and reduction of Emergencia survival support, taken alone, could further deflate the economy and increase both absolute poverty and absolute destitution.
3. The reasons are sixfold:
 - a. about 1,000,000 sector familial households (7,000,000 persons or about two-thirds of the rural population including refugees) have had their livelihoods wiped out and cannot rebuild them on their own;
 - b. perhaps 100,000 urban households (largely with mixed low formal wage plus informal wage and self-employment income sources) are absolutely poor because of low demand, low government revenue and real wages below \$30 a month (MT 70,000 as of May 1992) and cannot respond to incentives (except, ominously, by lowering real

productivity as real wages fall) nor contribute to reviving aggregate demand;

- c. public services are badly debilitated because fiscal constraints do not allow extension to growing urban and accessible rural populations, adequate maintenance nor paying efficiency wages (say \$50 to \$750 a month) necessary for raising morale and productivity as well as for making remedial and upgrading training an attractive use of public servants' time;
 - d. in the context of "a" and "b" the gap between minimum efficient basic services costs and fiscal resources cannot be closed by user charges because over 8,000,000 persons (50% plus of the population including refugees) cannot pay now and, without livelihood rehabilitation, will remain unable to pay for the foreseeable future;
 - e. basic rural and urban infrastructure , not least rural and small town commercial infrastructure is so badly debilitated as to cripple price incentives for enhanced production either because effective market access is absent, oligopsony is pervasive, transport costs are cripplingly high or the infrastructural gaps literally prevent restoration of production and services. Normal infrastructural investment programmes run into fiscal and organisational constraints; labour intensive ones carried out by the beneficiaries (of which several ILO, UNICEF, etc., funded cases exist) are practicable only if overall programmatic approaches are reshaped and finance is available for the workers wages;
 - f. demobilisation is essential both to reduce the fiscal drag and to ensure/sustain security. But if 120,000 fighters (plus 480,000 immediate family members) are to lose their 'jobs' without provision of livelihoods, the end result will not be security but both increases in absolute poverty and in 'freelance' banditry.
4. Normal development strategies and especially normal macroeconomic management strategies and accounting projections have little to say about this type of context. Presumably it is seen as so abnormal as not to warrant consideration. But it is our reality in Mozambique and we cannot embark on a normal development strategy (not even our

Priority District Programme) for more than a minority of our people until that reality is addressed and overcome.

5. To do so requires an interim Reconstrucao (or livelihood rehabilitation) strategy over at least seven years. It would serve as a bridge from Emergencia survival to Desenvolvimento. Mapping out the main elements of such an approach is quite feasible - especially for rural areas and sector familial households. They include:
- a. allocation of sector familial farms on return home by refugees, dislocated and affected households;
 - b. provision of basic working capital (tools to clear, to build and to till, plus basic household equipment seeds and where relevant fishing equipment and small stock) to returning households and to those pauperised in place with homes and working capital destroyed by the war and/or drought;
 - c. provision of food to these households for 9 to 15 months until they have a full harvest (or income from crops grown or fish caught to sell) to sustain them;
 - d. parallel 'reconstruction' of access to basic services - health, education, water, agricultural extension basically via government (provincial and district level) capacity enhancement with initially limited (by poverty) user contributions;
 - e. together with re-establishment of the rural/small town commercial network requiring loans to recapitalise rural oriented private and cooperative commercants (produce buyers-merchants-transporters) to provide effective market access and at least some competition for sector familial business;
 - f. as well as basic physical infrastructure reconstruction based on user assessment of priorities, district and provincial managed and focused on seasonal, labour intensive work employing sector familial household members to enhance their cash incomes to meet non-food needs and to reflate both real demand and real fiscal revenue;

- g. in association with a demobilisation programme which - following an initial payment on turning in weapons and equipment - incorporates ex combatants and their dependents into the main rural livelihood rehabilitation strategy.
6. Urban reconstruction is both harder to articulate at present and more directly linked with normal macro economics - as well as with rural reconstruction:
- a. one core element is reactivating idle capacity to increase productivity, real wages, fiscal revenue and investible surplus in a non-inflationary way;
 - b. which requires stronger effective demand from the sector familial, salarior earners and urban sector familial (informal) sector wage earners and producers;
 - c. as well as restoration of access to the countryside both to secure inputs (including food and raw materials) and to sell products - both dependent on rural livelihood rehabilitation;
 - d. emphasis not on low pay, temporary, peripheral employment schemes which can benefit only the 4% unemployed not the other 46% below the absolute poverty line who suffer not from unsaleable time but from low productivity and/or reward but, rather, focus on permanent, reasonable productivity wage employment (salarior or informal) and self-employment;
 - e. to be achieved through:
 - i.) shifting to more labour intensive techniques where these are economic, as they would be in urban rehabilitation, partly construction more generally as well as in some public service provision (partially achieved in refuse collection);
 - ii.) providing effective access to credit, markets and services (e.g. training, accounting) for medium-small-micro enterprises;

iii.) as well as to the artisanal (sector familial and micro enterprises, e.g. canoe fishermen and commercially oriented zonas verdes plots and workshops) sector;

iv.) general re-utilisation of existing capacity, albeit this is more likely to allow real salario increases than to raise employment even in the medium term because neither the private nor the public sector layed off as fast as output has declined over 1981-86.

f. this approach would support the potentially dynamic, reasonable productivity elements in the so-called informal sector, which is so diverse as to be a near useless single category for analytical and policy purposes. Its pure survival elements - especially ultra petty commerce - would probably benefit from higher real wages (salario and informal) since these are the largest single element in 80% of household incomes and, therefore, in the capacity of its customers to afford higher real commercial and minor service provision margins;

g. in parallel urban - like rural - basic services need to be reconstructed (especially in quality terms and in that respect most notably in respect of primary and applied continuing adult education) and to be expanded (to serve the 1980s expansion in canisa and permanent peri-urban residents) again with potential for user contributions limited so long as urban absolute poverty is over - say - 25% (versus 50% in late 1991);

h. and with general urban infrastructure (including road and housing) rehabilitation;

i. with an urban component of the demobilisation programme for ex-combatants from the cities to include interim food allowances and training (plus basic tools/working capital for artisans) analogous to the tools-seed-tools rural livelihood rehabilitation package.

7. The macroeconomic dynamic is relatively clear:

a. enhanced rural production of food, domestic raw materials and exportables;

- b. leading to enhanced nutrition (and ability to work harder and more productively), and cash incomes as well as reduced food and raw material import requirements and enhanced export levels;
 - c. fuelling demand to validate urban economic capacity utilisation and expansion as well as increasing availability of inputs;
 - d. allowing higher levels of nationally financed imports flowing into production and of commercial turnover feeding into revenue as well as to profits enhancing investible surplus and direct taxation on enterprises.
 - e. allowing reconstruction of basic services (health, education, water, agricultural extension, urban) crucial for short as well as long term productivity increases and
 - f. of physical infrastructure vital to economic rehabilitation and development as well as of the rural commercial network.
8. However, magnitudes and timings on both the cost and revenue sides cannot be projected with any great accuracy. This is not simply because the data base is very weak - which it surely is, nor because there is little analysed post-war reconstruction experience for very poor economies. Rather it relates to timing of drought (and its ending), insecurity (and its elimination), capacity building at both local and provincial government and at small enterprise level and the flow of funds to the reconstruction programmes.
9. On a very rough set of projections (set out in the subsequent sections) GDP by the end of fifth year could increase by up to \$1,000 million. Absolute poverty could on that basis be reduced from about 65% to 25% to 30%. Consistent with reducing the nutrition gap substantially (allowing for a one-third increase in resident population) food aid could be cut from 500,000/600,000 to 200,000/300,000 tonnes a year. Ongoing government spending arising out of the programme would be likely to total \$175 million gross and \$105 million net with additional recurrent revenue from the \$700 million monetised addition to GDP slightly larger. Additional exports plus direct import substitution (excluding food aid reduction) and direct (including inputs into production and transport) ongoing imports could approximately balance

around \$140 to \$150 million. They might show a small deficit which logically would be closed from expansion in tourism, transit transport and power exports (and import substitution) parallel to, but not included in, Reconstrucao proper. Thus the macro projections show Reconstrucao to be viable once established, able to increase output and food security and to reduce absolute poverty significantly and roughly in balance on fiscal and external account. While closing poverty, nutrition and social imbalances it could not, by itself, substantially erode overall fiscal and external account imbalances. However, non-Reconstrucao development in hydropower (including restoration of exports), tourism and transit transport plus mining and hydrocarbons (gas exports) could begin that rebalancing while Reconstrucao laid the livelihood and human investment base for a broader development effort by the late 1990s. Overall the gross cost of Reconstrucao would approach £2,000 million over 5 years. However, up to \$1,200 million could be met from reallocation and \$155 million from domestic revenue gains leaving about \$630 million additional external resource requirements of which \$415 million relate to special (refugees, demobilisation) and \$215 million to general rehabilitation costs.

10. Certain macroeconomic policy approaches need revision (or provision of supplementary parallel mechanism) for this strategy to be viable:
 - a. credit for reactivating capacity, facilitating the small, micro and artisanal enterprise sectors, and rehabilitating the rural commercial network cannot be provided within current bank credit ceilings which already prevent validation of produced output (notably in agriculture);
 - b. requiring either new approaches (incorporating calculation of real floor levels required to allow enhanced real output as well as monetary ceilings to limit inflation) to credit ceiling calculation or/and new credit channels not counted as bank credit (even if commercial banks may be involved as agents);
 - c. expansion of basic service coverage (and, especially in the case of education, quality rehabilitation) and rehabilitation of public service salaries to minimum levels consistent with efficiency;

- d. initially requiring additional as well as reallocated external finance (perhaps partly by selective reduction of provision of overseas personnel and training in favour of temporary, agreed public service salary enhancement for middle and high skill posts plus local joint venture training) to avoid reopening an inflationary domestic borrowing requirement.

These are modifications within PRE and PRES macroeconomic strategy - not an abandonment of that strategy. But they are crucial to stabilisation and price relativity adjustment costs being able to pay off in contributing to an enabling climate for enhanced production.

- 11. It also depends on revised perceptions by resource providers;
 - a. recognition that until livelihoods are rehabilitated the reduction of emergency survival support will mean destitution and even death but that shifting resources gradually from emergency to rehabilitation does provide a route back to development and, ultimately, to lower Mozambican net resource inflow requirements;
 - b. implying that Emergencia funding should be considered to be fungible at least to Reconstrucao;
 - c. while also recognising that the number of households needing assistance in livelihood rehabilitation (as well as the scarcity of middle level Mozambican support personnel and the total inappropriateness of expatriates beyond central and provincial coordination levels) requires simple, low unit cost per household served, swiftly beginning, broad coverage, expansible programmes which are, perhaps analogous to Emergencia but the exact opposite of most donor designed or redesigned rural development projects and especially of most new large scale agricultural enterprises or large scale (even if sector familial cropped) irrigation schemes;
 - d. and which are much harder to analyse with any precision or estimation of magnitude and timing of returns than - say - hydroelectric or major infrastructural projects;
 - e. requiring some reallocation from long pay off period, high capital cost per benefiting household projects especially in agriculture;

f. but that in the initial years of reconstrucao (and particularly in respect to demobilicao) net additional resources will be needed until benefit flows first balance and then exceed expenditure, especially because basic public service spending per capita and - implicitly - non-uniformed government employment are currently less than half those posited in the World Bank's Long Term Perspective Study which is, in a real sense, the foundation from and toward which Reconstrucao has been elaborated.

12. A series of significant institutional changes affecting donors as well as the Government of Mozambique will be necessary:

- a. redressing the imbalance under which 40% of non-military, non-debt service recurrent expenditure budgeting and disbursement but only about 4% of capital is now effectively decentralised to Provinces - a shift affecting donor-Provincial, almost more than Ministry of Finance-Provincial, relations and requiring recapacitation of Provincial Planning Commissions;
- b. operating Reconstrucao within a national strategic, macroeconomic and coordination frame but with articulation, budgeting and implementation dominantly at Provincial level (and, to the extent capacity makes this practicable, at District level);
- c. negotiating Emergencia and Reconstrucao together to allow gradual resource shifts former to the latter as well as coordinating Reconstrucao and Development proper, initially to facilitate reallocations from the latter to the former;
- d. creating a means to integrate UNDP and UNHCR support for livelihood rehabilitation for domestic and externally displaced persons into a single operational whole within the overall national strategy and Provincial articulation and operation, rather than arriving at three different programmes with different (and potentially significantly inconsistent) styles;
- e. ensuring that demobilisation support includes not only initial allowances but also funding livelihood rehabilitation (rural and urban);

- f. greater joint evaluation of recurrent and capital expenditure because a substantial portion of rehabilitacao/reconstrucao is on the borderline between the two while another large proportion is recurrent expenditure targeted toward creating an enabling climate for early output recovery;
- g. avoiding creation of new parallel institutions and commissions - indeed where possible reducing present overlaps and tightening lines of accountability - while enhancing coordination primarily through more creative use of the work of the National Budget (Finance) and National Planning Directorates.

The foregoing review implies that while Reconstrucao should be an analytical and programming focus, including detailed Reconstrucao sub-votes in - e.g. - Provincial primary health care or even agricultural extension and especially have separate sub-categories of personnel would rarely be necessary or even appropriate.

Rural Livelihood Rehabilitation: Numbers, Phasing, Costs

- 13. For three reasons Rural Livelihood Rehabilitation must be the backbone of Reconstrucao:
 - i.) 7,500,000 persons in 1,100,000 households or over half the total probable 1991 population of 14 million (including refugees) are involved vs a total population of 3,000,000 in the cities;
 - ii.) adequate demand to reflate the urban economy and adequate food to feed it require recovery of sector familial production, marketing and demand;
 - 111.) exports and local sourcing of artisanal and manufacturing enterprise inputs can be raised rapidly only if the sector familial is assisted in regaining its feet.
- 14. Table 1 sets out a resume of numbers of household by characteristic. In all cases except "pauperised in place" an initial move/return is needed although this may be much shorter for afectados. Most households - on somewhat qualitative expressions of opinion - wish to return to home district sector familial lands. Because neither security nor capacity to support will change instantly, that in itself requires phasing. Urban residents (as opposed to peri-urban afectados huddled on quarter hectare sandpiles) are assumed to intend to remain

in the urban areas - indeed many probably moved during the war but for much more complex reasons. 1993/94 figures are particularly speculative because full scale implementation depends on mobilising finance as well as domestic institutions and - above all - on termination of the drought and continued reduction of the levels of insecurity preventing return to many districts. The latter condition does not mean no insecurity - let alone no danger to expatriate visitors - Mozambican sector familial households have a more pragmatic judgement. About 100,000 households "went home" over 1988-91. However, that does mean most "easy" re-establishment has already been done. There are already reports of failed re-establishment efforts with some households perishing in the attempt, e.g. in Zambesia in late 1991.

15. Costs are set out in Table 2. The total covers the five return years. Some special programmes would be needed for two further years if - as rural livelihood rehabilitation posits - support is concentrated in the first year but continues (especially in respect to infrastructure rehabilitation and wages therefrom) for three. Further, most basic services and some infrastructure expenditure flows would be melded into the normal budget - closing down newly reopened primary schools and health posts or abandoning local road maintenance would hardly be rational. These elements are included in Table 6 which evaluates post Reconstrucao fiscal questions.

16. The total Rural Reconstrucao costs as schematised in Table 2 come to \$1,612.5 million gross over five years or \$322,500,000 per year. That is the same order of magnitude as Emergencia over 1987-1990. Adding support to Mozambican refugees would raise that total to something approaching \$500 million a year. While Emergencia and support to refugees cannot simply be re-christened Rural Livelihood Rehabilitation they can most certainly be phased down as Reconstruction takes hold. By the end of 1997/98 it could be cut back to natural calamities (drought and flood) which, while substantial in some years of severe drought would normally not exceed one-fifth present Emergencia costs. Unlike Emergencia and refugee support - which do ensure survival for deslocados and refugees (though not for most deslocados or "pauperised in place" households) but offer no hope for return to self-sufficiency, Rural Livelihood Rehabilitation does lead back toward normal

development based on self supporting sectoral familial households so that its costs - except for continuing basic service expansion and rural infrastructure maintenance which would become part of basic fiscal operations - are self terminating.

17. The expenditure categories as set out in Table 2 and notes are reasonably self explanatory with the possible exception of "D" - Market Revival. In rural Mozambique the small trader/transporter commercial network quite literally drove off into the sunrise at independence. Its rebuilding by Mozambican entrepreneurs, co-ops and Agricon was at best partial and was then crippled by the war from 1981. The basic requirements for reviving it are lorries and working capital in the form of goods to sell. These cannot be financed through domestic banks because of foreign exchange constraints and credit ceilings, but without them price incentives cannot be effective nor the sector familial earn the cash to pay for (or reach the goods to meet) its basic needs beyond household produced and consumed food, housing and craft products. Unlike the other expenditure items, the £275 million would be in the form of loans whose repayment could create a revolving fund for small scale rural enterprise (private, co-operative or local governmental). Agricon's continued role (and expanded buying capacity) as a large wholesale buyer competing for custom with other wholesalers is for the medium term essential both to set floor prices in a context of oligopsony and because private and co-op enterprises prefer to use Agricon as a wholesale buyer rather than carry out longer distance trade in agricultural commodities.

Urban Reconstruction: Parameters And Costs

18. The Urban side of Reconstrucao is much harder to present schematically than the rural for four reasons:
- a. much of the urban rehabilitation - both as to capacity utilisation and increases in real wages to minimum efficiency levels - depends on overall macroeconomic recovery rather than specific urban expenditures; and in particular
 - b. the largest single impetus to enhanced urban production should be revitalised rural demand from RLRP;

- c. substantial urban investment and production raising programmes - e.g. the World Bank's urban rehabilitation scheme, urban power development, ports and railways, tourism, large scale manufacturing - fall outside the Reconstrucaio programme proper even if their export, employment and revenue enhancement effects can make significant contributions to creating, together with Reconstrucaio, a stable foundation for broadly based development from the late 1990s;
- d. while the specific labour intensity, small enterprise and artisanal sector components of urban reconstruction are harder to cost than those of RLRP because, to date, less data and analysis are available.

- 19. Table 3 sets out rough parameters for Urban Reconstruction concentrating on livelihood rehabilitation for those in the 50% absolutely poor in urban areas both by direct measures, through services and infrastructure restoration and by providing access to credit-training-services to more small, micro and artisanal enterprises and also through seeking to incorporate more labour intensive approaches into the Urban Rehabilitation project sequence and into other urban construction outside the Reconstrucaio Programme proper.
- 20. The total (including the rehabilitation of the livelihoods of urban origin ex-combatants) is estimated at \$353 million. That is about 17½% of total Rural plus Urban Reconstruction costs of \$2,000 million odd over five years. The urban population is about 3 million or 21½% of 14 million probable Mozambicans in Mozambique plus refugees as of the end of 1991. The difference relates to present less massive shortages of basic services and less bad infrastructure in urban programmes, to the positive impact of rural effective demand recovery on urban production and wages, and to projects (e.g Urban Rehabilitation, large scale enterprise investments) not within Reconstrucaio.

Reallocation and Mobilisation: Financing Reconstrucaio

- 21. The total cost of funding Reconstrucaio (in 1991 \$) over 1993/94 - 1997/98 is of the order of \$2,000 million. (Addition of Tables 2, 3.) If that entire amount needed to be mobilised as additional general donor support then Reconstrucaio - however necessary - would be

impracticable because not fundable. However, as set out in Table 4, the net additional general purpose external support required over the initial three years is of the order of \$300 million and in the last two years goes negative.

22. Over five years Emergencia can be phased down from the order of \$300 million in 1990/91 (and a much higher drought imposed 1991/92 level) to \$100 million or less. Over five years the reallocation should come to \$575 million unless 1989/90 did mark the beginning of five years of poor to disastrous rainfall (as did 1979/80). This reallocation needs to follow resettlement so cannot reach its full \$300 million potential before 1996/97.
23. Reallocation from large capital intensive projects - notably irrigation, large scale farming schemes and large, 100% government owned factories - could total \$350 million over five years. These are classes of projects with a very poor track record on results but have consistently been a quarter to a half of the \$300 million odd capital budget because of their relative suitability for sophisticated technical presentation (albeit not accurate projection of results) and their attractiveness to advocates of quick fixes or large contracts.
24. Not all large capital intensive projects are unsound. Given the inheritance of the concrete urban cores, Urban Rehabilitation is needed but should become more labour intensive. Similarly major transportation rehabilitation and modernisation is crucial to restore transit traffic foreign exchange earnings and domestic arterial transport links (including coastal shipping) and to reduce transport costs of landlocked neighbours. Nor should enterprise (private, public or joint venture) borrowings able to service external credits both in cash flow and external account terms - e.g. hydrocarbons (especially gas), Cahora Basa restoration and direct linkage to Zimbabwe, Maputo, Swaziland and selected industrial projects including some transport equipment and textile ventures be vetoed. However, there is no evident reason to include this last category in the state budget.
25. Technical assistance reallocations should be attainable up to \$75 million. Overseas training instead of Mozambique based joint venture courses and provision of expatriate replacements costing up to twenty times what it would cost to provide adequate incentives to

retain or hire Mozambican professionals are very inefficient both in value for money and in capacity building terms. Indeed on the second count their contribution is negative and substantial.

26. Within the Mozambican Recurrent Budget \$190 million should become available over 1993/94 - 1997/98 from reduced military expenditure requirements. The exact timing depends on the pace at which demobilicao, complemented by the Santa Egida peace talks, can reduce sabotage, terrorism and rural insecurity/isolation.
27. Therefore reallocation can total the order of \$1,200 million or 60% of gross Reconstrucao requirements.
28. Domestic fiscal gains from taxes on additional monetised output and cash plus labour/materials user contributions toward basic service costs can yield another 7½% or \$155 million.
29. This leaves \$628 million over five years (\$593 million over the first three) beyond 1990/91 levels of external support. Of that \$414 million relates to two special programmes which are eligible for special finance:
 - a. Refugee return and livelihood rehabilitation costing about \$230 million for 1,500,000 persons (probably of the same order of magnitude as present international support over five years);
 - b. Demobilisation including initial allowances and livelihood rehabilitation costing about \$185 million for 120,000 ex-combatants and 480,000 household members.

UNHCR is committed to substantial support to refugee return and reintegration (in a sense reallocation for supporting them outside Mozambique). On the basis of its partial, preliminary estimates this should be in the \$100 to 150 million range. Countries - such as Japan - seeking to utilise external assistance to support peace processes and post war economic rehabilitation are also likely to see the self concluding refugee rehabilitation and demobilisation programmes as qualifying for support beyond basic country allocations. Italy and Switzerland are committed to providing substantial support for demobilisation - perhaps up to half the total required.

30. The net additional general external assistance (above 1990-91 levels) needed to fund Reconstrucao is of the order of \$215 million. This is front end loaded with \$166.5 million in 1993/94 because reallocation and revenue generation will lag resettlement by 12 to 18 months for initial substantial gains and perhaps twice as long for full potential. The 1994/95 plus 1995/96 requirement totals are about \$130 million while 1996/97 and 1997/98 projections of net additional requirements are, in fact, negative because of resettlement programme completions and rising fiscal and reallocation gains.
31. The phasing of costs (and benefits) depends on the effective pace of programme start up. If financial mobilisation, demobilisation and refugee return and/or general resettlement capacity build-up are delayed the 1993/94 (and perhaps 1994/95) costs will be lower but subsequent year costs will be higher and, indeed a portion of the main body of the Reconstrucao expenditure will spill over into 1998/99.
32. One uncertainty is weather. 1992/93 Emergencia costs are likely to be \$100 million or more above 1990/91 levels because of 1991/92 drought. Because of drought related physical debilitation and low seed availability, 1993/94 crops (even in the absence of bad weather over the 1992/93 main crop season) will be below normal requiring higher food aid and Emergencia support in 1993/94 than in 1990/91.

Livelihood Rehabilitation and GDP

33. The gross domestic product increase resulting from livelihood reconstruction of \$942,500,000 estimated in Table 5 is both substantial and, initially, surprising. It amounts to in the range of \$400 to \$600 per household in the direct benefit categories - an increase which would allow most to re-establish themselves at or above the absolute poverty line.
34. In evaluating the plausibility of the estimate three factors need to be recognised:
- a. present GDP estimates - apart from inaccuracies as such - are gross underestimates (as explained in the Notes to Table 5) so that the near 100% comparative increase is misleading because of non-comparability;

- b. the rural economy of Mozambique has since 1981 been shattered by external aggression and war so that over 100% growth of output in the sector familial is basically regaining the 1981 (or the moderately higher 1972) position;
- c. the urban value added increase pivots on the recovery of access to the rural market and rural input sources allowing reactivation of existing capacity justified by restored demand.
35. Net output by the 1,100,000 livelihood restoration families is estimated to rise by \$490,000,000 - representing primarily restoration of basic food self-sufficiency and restoration of homes (50%) and partially restored food, export and industrial crop and artisanal sales (about 40%). The average of \$450 per household is by no means implausibly high for a stable sector familial household. It approaches the rural absolute poverty threshold.
36. Because infrastructure, market access, agricultural extension and basic service restoration will also benefit other sector familial families their output can be expected to rise by \$50,000,000 while the re-establishment of rural/transport and commerce to make possible and to validate enhanced production has a value added impact of the order of \$100 million. Ongoing basic services and small scale infrastructure contribution (basically wages) is of the order of \$65,000,000, i.e. 10% of the total rural gain of \$687,500,000 (about 45% household self-provisioning) estimated for 1998/99.

Fiscal Sustainability - An Exploration

37. To represent a transition to more normal development, Reconstrucao must be fiscally sustainable. That means that from 1998/99 the additional domestic revenues from enhanced output must approximate enhanced ongoing recurrent basic services and small scale infrastructure investment.
38. The projections in Table 6 indicate that Reconstrucao can pass this test on the - plausible - assumption that total incremental tax revenue is of the order of 20% of additional commercialised (monetised) GDP and that a \$50 million reduction in military expenditure is achieved and sustained. Total additional expenditure is (in 1991 \$ prices)

estimated at \$177,500,000; additional revenue at \$143,500,000 (\$150,000,000 counting user service cost contributions in goods and labour) and military cost reductions at \$50,000,000 for a net projected domestic fiscal gain of \$22,500,000. User contributions in cash and goods/labour are estimated at \$25,000,000 a level not implausible if real minimum wages, real artisanal incomes and sector familial production rise as projected leading to a substantial reduction in the nearly two-thirds unable to pay substantial contributions at present because of absolute poverty.

39. This level of fiscal strengthening will clearly not solve Mozambique's fiscal problem. Nor is Reconstrucao intended to do that. Rather it is to parallel output growth elsewhere in the economy and to lay a foundation for normal development restoration which can generate additional revenues above necessary additional recurrent expenditures.

Balance Of Payments Considerations

40. The projected external balance impact of Reconstrucao is basically neutral as set out in Table 7. Additional exports and imports are both projected to be of the order of \$140,000,000 in 1998/99.
41. The ratio of exports and of imports at slightly under 25% of additional commercialised GDP is relatively low. However, that turns on the nature of Livelihood Rehabilitation - domestic food, services and manufactured goods. Several major export generating (and import using) sectors: e.g. tourism, corporate agriculture, mining, energy, large scale transport and commercial fishing/prawning - are outside its scope.
42. The main query over these projections lies not on the export volume - which is within 1981 and 1972 sector familial and secondary urban export levels - but the use of 1991 \$ prices. This does assume no further terms of trade deterioration, especially for cashew nuts, prawns and cotton. That, however, is not a problem specific to Reconstrucao. The 1980s terms of trade collapse has meant that most SSA economies, even when physical exports rose rapidly, have been running rather fruitlessly up the down escalator in respect to attaining absolute reduction in trade deficits.

43. As with overall fiscal gap closing, the overall trade balance's closure is not (cannot be) a Reconstrucao target. That target must be applied to parallel and subsequent development programming. The Reconstrucao test is whether output increase by rural livelihood rehabilitation and reflation of demand for urban output to validate rural sales to urban areas can be achieved without radical worsening of the trade balance. That test it appears to pass.

Food Security: Toward A Breakthrough

44. A primary test of any Livelihood Rehabilitation based strategy in Mozambique is its potential contribution to physical national and to household entitlements aspects of food security. The national food balance estimates at Table 8 indicate a near return to national provisioning (6% imports vs 14% in 1990/91) consistent with a radical reduction in the overall food deficit (7% vs 25% in 1990/91) can be achieved by 1998/99. The change is so dramatic because prior to 1981 Mozambique had a near balance position in basic foods (excluding sugar which was a major export) albeit it also had a larger food deficit after imports (i.e. levels of hunger and malnutrition) than the posited 1998/99 attainable level. Because the fall has come from war which has destroyed security to produce, basic physical infrastructure, market access and basic services, the reversal of these factors can allow the sector familial (the largest colonial era producer of commercialised food and of agricultural exports) to restore output reasonably rapidly. The key is enabling the nearly three-quarters of sector familial households now totally or nearly out of production to re-enter it at their former levels or modestly above them.

The pattern of near national balance arising from the estimates is consistent with that of Tanzania - another territorial unit with varied but, on balance, relatively poor land/rainfall and with a rural economy dominated by sector familial production. The parallelism includes the lower rural rather than the urban food deficit - low income urban households do consume more manufactured goods plus services but less food than their rural analogues.

45. The projections assume 1998/99 to be a normal (neither drought stricken nor blessed by particularly favourable weather) year. Evidently the out-turn (on GDP, Fiscal and External Account as well as Food Balance)

would be substantially worse were it a drought year. If it were a bumper harvest year GDP, External Account and Food Balance out-turns would be improved, but the Fiscal Account would worsen because of losses on exports of surpluses and because the credit requirements of purchasing them in the first place would place strains on monetary management.

46. 1998/99 Food Aid imports are targeted at 200,000 tonnes. The rationale is that:
- a. Mozambique - even with successful Reconstrucao - will in 1998/99 still be one of the world's poorest countries;
 - b. Food aid will remain a significant proportion of total assistance resources available and will not be fully convertible into untied monetary aid;
 - c. Between 50,000 and 100,000 tonnes of wheat and rice will be required above domestic production and can be commercialised to meet domestic costs (reduce combined Recurrent/Capital Budget cash flow deficit);
 - d. Even in normal years rural calamities and urban safety net provision will require at least 50,000 tonnes of food (whether directly distributed or sold to pay wages on work for food projects);
 - e. Project food aid - e.g. construction of provincial level highways, medium to large scale reforestation - could be partially financed via the sale of up to 50,000 tonnes a year.
47. These rough calculations suggest 200,000 tonnes is an attainable and efficiently usable target for grant and soft loan food aid in 1989/90.

The Struggle Against Absolute Poverty - Reversing The 1980s

48. A central goal of Mozambican political, social and economic strategy is rapid reduction of the proportion of households existing in absolute poverty through providing them with basic services and an enabling environment in which they can produce more. The centre piece of this strategy over 1993/94 - 1997/98 is the Rural Livelihood Rehabilitation

Strategy to enable the rural sector familial to restore its production thereby restoring demand for urban production and validating recovery in real wages toward minimum efficiency levels. A major supporting thrust is restoring/enhancing urban artisanal sector and micro/small enterprise ability to produce in the enabling climate created by enhanced rural demand for urban goods and ability to provide inputs into processing and manufacture as well as food.

49. Table 9 indicates that the Rehabilitacao strategic programmes could reduce the proportion of households in absolute poverty from 65% in 1990/91 to 24% in 1998/99. These levels compare with the World Bank 1990 estimates of 32% poverty in SSA as a whole or about 25% excluding Angola, Mozambique, Ethiopia, Zaire, Malawi and Sudan. While 1980/81 absolute poverty line percentage estimates do not exist for Mozambique a rough evaluation of available macro data and distribution characteristics suggests they were in the 25% to 30% range.
50. The rural reduction estimates - from 90% for RLRP households and 30% for other rural to 25% and 20% are relatively firm given attainment of the sector familial output and income targets. The basic question in respect to them is the distribution of sector familial household incomes in 1989/90. Differences in relative land scarcity and quality and of location will certainly cause some scatter, but it should not be extreme and, in particular, the proportion of households unable to reach approximate household level food balance at or near basic nutritional adequacy levels would appear likely to be relatively low.
51. The urban reduction estimates from 50% to 27½% are more tentative. They turn very heavily on restoration of the real salario minimale's purchasing power to about \$40 a month (1991 prices) with its consequential impact on micro and artisanal enterprise real wages and small producer earnings. So far as the enterprise sector goes the pure logic economic efficiency in the context of restored demand should contribute substantially to that result. The key problem is achieving what both governance efficiency and macroeconomic recovery require but fiscal constraints since 1981 increasingly have prevented - the Government of Mozambique paying it. While the data at Table 7 allow that crucial shift in respect to Basic Services programmes initiated under Reconstrucao, the overall fiscal position (and donor attitudes to

resource use to pay minimum efficiency wage levels) are more problematic.

52. The 27½% 1989/90 estimate of urban absolute poverty is dominated by households with inadequate quantity or quality of labour power. In order of size these are limited (or no) education single adult headed households with no formal sector job; households with average income but above average number of dependents; households headed by waged persons and households headed by disabled persons. The first and largest category are in practice overwhelmingly female headed. No plausible programme can do more than erode this hard core absolute poverty during the 1990s, because lack of labour time is its basic characteristic additional employment opportunities will be largely - though not totally - irrelevant and labour quality upgrading will be very hard to achieve. Therefore, the basic strategic approach will need to be through safety net support programmes not Livelihood Restoration. These continuing safety net programmes (unlike transitional ones for demobilicados and selected categories of low salario workers) are not part of Reconstrucao.
53. All of the figures in Table 9 relate to one aspect only of Absolute Poverty - household earned income (including household self-provisioning). They do not include social and human gains from enhanced access to basic services nor reduction in workloads (especially on women). The gains on these heads within Reconstrucao should be significant given its basic public services thrust.
54. So far as household ability to consume is concerned, Reconstrucao proper does not, by definition, address safety nets because it is household production (including basic services, physical infrastructure and market infrastructure enabling context creation) focused. Calamities Commission (basically rural drought and flood relief) and urban safety net programmes are envisaged as the main parallel strategic cluster to alleviate the impact of absolute poverty on households existing in it. What Reconstrucao can do is to reduce the numbers of households requiring safety net support to more manageable proportions and to create a stronger economic and fiscal base to mount survival support operations.

In Summary

55. Mozambique needs a strategic initiative to reconstruct livelihoods, restore basic food balance and reduce absolute poverty as a transition from Emergencia survival to broad front Desenvolvimento. Without such a transition, standard development strategies will be accessible only to a minority of the people and it will not be possible to create an enabling economic, social and political climate in which Mozambican households have the capacity to respond to economic incentives.
56. Reconstrucao can be designed and implemented in ways which do meet these transition to development objectives. Production of goods and services by the sector familial (including its urban artisanal counterpart) in conjunction with restoration and extension of basic services, rehabilitation of small scale rural and urban infrastructure and revitalisation of the rural commercial network can yield substantial and sustainable macro economic gains in respect to GDP, export, fiscal revenue, food balance and absolute poverty eradication.
57. That approach is not a departure or a diversion from PRE/PRES or the Struggle Against Absolute Poverty. Rather it constitutes a necessary complement to the first and the main means to ensure rapid progress in the second. Because livelihood rehabilitation is the central need of over half of Mozambique's households, including over 7,500,000 rural and up to 1,000,000 urban persons, a five year programme is required. Both financial and personnel, as well as institutional and implementational (public, private and household) capacity, constraints make a shorter time horizon impractical; the urgency of restoring the economic, social and political fabric of the majority of our households forbids a more leisurely pace. (Table 1)
58. The rural livelihood rehabilitation component will cost \$1,600 million over 1993/94 through 1997/98. It will serve about 1,100,000 households (7,500,000 persons) including external deslocados (refugees), deslocados (domestic refugees), afectados households "pauperised in place" and demobilizados (ex-combatants and families). Its main components are tools and materials to restore homes and production, basic services, physical infrastructure restoration through labour intensive works and enabling the re-establishment of the rural commercial network. (Table 2)

59. The urban reconstruction effort turns on the reactivation of capacity made possible by increased rural effective demand based on the increases in production enabled by the rural livelihood rehabilitation programme. To complement this rural sector demand catalyst, training, services and capital are to be made available to the urban sector familial (artisanal), to micro enterprises and to small enterprises; basic services are to be restored (in qualitative as well as quantitative terms) and extended and small scale urban infrastructure (especially in the canisas) rehabilitated and extended. The total five year cost estimate is \$360 million. (Table 3)
60. The gross five year cost is of the order of \$2,000 million. Of this 60% can be secured via reallocations in particular from Emergencia, large scale capital projects and military expenditure. Another 8% can be financed from increased tax revenues derived from the gross domestic product generated by the programme. Of the balance of \$630 million, \$230 million relates to refugee return (and is in fact a reallocation of international resources from assisting them abroad) and \$185 million is to cover the costs of demobilising and reintegrating ex-combatants and their families, a special investment in peace. The increase in general external support required is \$215 million over five years. Because reallocation and revenue offsets follow on from initial reconstruction spending, this requirement is front end loaded with \$166 million in 1993/94 and negative extra requirements in the fourth and fifth years. (Table 4)
61. Macro economic estimates of programme results and sustainability of gains have been made for 1988/89. These are necessarily order of magnitude estimates and their exact timing depends on the speed with which demobilicao and the complementary Santa Egida peace talks proceed, on the weather pattern and on the speed with which the programme can be begun. Briefly:
- a. Gross Domestic Product increases total \$940 million (\$688 million rural and \$255 million urban - Table 5);
 - b. Additional domestic revenue totals \$143 million, expenditure \$178 million and savings on military expenditure \$50 million for a positive fiscal balance (Table 6);

- c. Programme enabled exports are estimated at \$140 million in 1988/89, savings on military imports at \$25 million and the direct and indirect import requirements of the additional GDP at \$155 million leaving approximate external balance in relation to continuing impact of Reconstrucao (Table 7);
- d. Food production can be expected to rise to 5,700,000 tonnes in 1998/99 - 87% of basic food requirements vs 61% achieved in 1990/91 allowing a substantial reduction in food aid consistent with reducing the food deficit after imports from 25% to 7% (Table 8);
- e. Absolute poverty would, as a result of the household production and wage increases, be reduced to 24% in 1998/99 as contrasted with 65% in 1991. That is level comparable to the average for non-disaster stricken SSA economies and is one (together with basic services, market access and infrastructure restoration) enabling the majority of Mozambican households to participate in, respond to the incentives of and benefit from subsequent broad front macroeconomic development strategies.

Table 1

Rural livelihood Rehabilitation 1993/4 - 1997/8
Numbers of Households¹ and Possible Phasing

Category	1993/4	1994/5	1995/6	1996/7	1997/8	Total
Refugees (Externally Displaced) ²	40,000	70,000	50,000	40,000	15,000	215,000
Displaced (Internal Refugees)	40,000	70,000	50,000	40,000	15,000	215,000
Affected (Forced To Move) ³	100,000	150,000	100,000	50,000	30,000	430,000
Pauperised In Place ⁴	25,000	50,000	40,000	20,000	5,000	140,000
Demobilised Ex-Combatants ⁵	40,000	50,000	10,000	-	-	100,000
Total⁶	245,000	390,000	250,000	150,000	65,000	1,100,000

Notes:

1. Average household size estimated at 7 persons except for ex-Combatants estimated at 5. Approximately 55% children under 15, 25% adult women, 20% adult men. One household in 4 female headed.
2. Official UNHCR estimates of 1.3 million persons exclude non-registered refugees in Zambia and also Swaziland and South Africa. On the other hand, they overstate Malawi where registering new arrivals is prompt and efficient but deleting returnees is neither, understandably from a Malawian perspective.
3. Households not in camps (effective distinctive characteristic of deslocados) forced to move by war and neither incorporated in urban life nor satisfactorily resettled from their own perspective (Many of new Beira Corridor residents are satisfactorily resettled but relatively few elsewhere).
4. Living in or near ruins of homes but with total or near total loss of residences, seeds, tools, food stocks, livestock.
5. Rural background households (20,000 in urban reconstruction estimates for urban background households).
6. Phasing highly approximate. Constraints are drought, security, capacity of agencies and state to assist. Larger 1994/5 targets would be desirable but financial, personnel and institutional limitations would make them dangerous because unassisted returnees are likely to fail to re-establish themselves and to flee again or even - as has happened - die.

Table 2

Rural Reconstruction: Toward Costing
(000 1991 Price \$)

Category	1993/4	1994/5	1995/6	1996/7	1997/8	Total ^{1,3}
A. <u>Household Re-establishment</u>	117,500	187,500	122,500	77,500	36,500	540,000
Internal Transport ¹	(12,500)	(20,000)	(12,500)	(7,500)	(3,000)	(55,000)
Food ²	(75,000)	(120,000)	(80,000)	(50,000)	(25,000)	(350,000)
Tools/Seeds/Household Equipment ³	(25,000)	(40,000)	(25,000)	(15,000)	(6,000)	(110,000)
Construction Materials/Simple Equipment ⁴	(5,000)	(7,500)	(5,000)	(5,000)	(2,500)	(25,000)
B. <u>Physical Infrastructure Rehabilitation⁵</u>	25,000	50,000	75,000	50,000	50,000	250,000
C. <u>Basic Service Restoration/Extension⁶</u>	50,000	75,000	125,000	125,000	75,000	450,000
D. <u>Market Revival</u>	32,500	65,000	67,500	97,500	37,500	300,000
Retail Enterprise Infrastructure (Vehicles/Working Capital) ⁷	(25,000)	(50,000)	(50,000)	(75,000)	(25,000)	(225,000)
Ditto Wholesale Enterprise ⁸	(5,000)	(10,000)	(10,000)	(15,000)	(10,000)	(50,000)
Associated Public Infrastructure ⁹	(2,500)	(5,000)	(7,500)	(7,500)	(2,500)	(25,000)
E. <u>Associated Items</u>	19,000	26,250	14,750	7,500	5,000	72,500
Refugee Return ¹⁰	(5,000)	(7,500)	(5,000)	(5,000)	(2,500)	(25,000)
Demobilisation Allowances ¹¹	(9,000)	(11,250)	(2,250)	-	-	(22,500)
Planning/Coordination (DNP, CCPs, Prov. Works) ¹²	(5,000)	(7,500)	(7,500)	(2,500)	(2,500)	(25,000)
TOTAL	244,000	303,750	404,750	357,500	304,000	1,612,500

Notes:

1. From present location to home area. \$50/household.
2. 9 to 15 months to first main crop. \$300-325/household including transport.

3. Tools to clear and till land and to rebuild home, tools, small stock, fishing equipment, seeds, basic household equipment - e.g. water pails. \$100/household including transport.
4. Beams, poles, bricks, carpentry tools, block making machines, cement. Say \$1,000 per village of 400 households.
5. Roads, culverts, ditches, small scale irrigation, ponds, other public buildings.
Rough breakdown:

Wages Seasonal Local Labour	125,000,000
Other Wages and Salaries	25,000,000
Hand Tools	10,000,000
Other Equipment	25,000,000
Construction Inputs (Pipe/Pumps/ Bitumen/Cement/Wood/etc.)	65,000,000

6. Primary Health, Education, Agricultural Extension, Water.
Rough breakdown:

Wages, Salaries, Training	150,000,000
Operating Materials (Drugs/ Texts/Chalk/etc.)	100,000,000
Equipment (Blackboards, Furniture, Vehicles, etc.)	75,000,000
Buildings, Other Fixed Plant	100,000,000

(Rural service expansion/rehabilitation recurrent and capital cumulative over five years.)

7. Loans to 2,500 newly re-established rural merchants/transporters at \$40,000 each - lorry, stock in trade finance. Loans to 500-750 co-operatives (expansion of capital base or new activity) at comparable capital input. \$100 million subsequent finance (loan) of vehicle-warehouse-working capital expansion in addition to reinvested enterprise earnings.
8. Analogous to Note 7 for wholesale sector-private enterprises, co-ops and (as guarantor of minimum prices and of competition) Agricon.
9. Warehouses, markets, selected medium scale works.
10. \$100-125 per person. Presumptively UNHCR financed. Subsequent expenses for refugees incorporated in main programme heads. About 20% of totals.
11. Initial allowance of \$150 per person at time of turning in gun and equipment. Plus 50% addition for 'surplus' guns from Mozambique or South Africa turned in. Subsequent expenses incorporated in main programme heads (about 9% of totals).
12. Training, equipment, staff gap filling in coordination units - DNP, Provincial Planning Directorates - and crucial operating units especially Provincial Works Directorates (engineers, draughtsmen, artisans, foremen) to design/operate small fixed capital unit components of programme.
13. Rounded especially in "A" so line totals may not add exactly.

Table 3

Urban Reconstruction Toward Costing
(000 1991 Price \$)

Category	1993/4	1994/5	1995/6	1996/7	1997/8	Total ^{1,3}
A. Household						
<u>Re-establishment</u>	13,000	20,500	19,500	18,000	13,000	84,000
Demobilisation ¹	(8,500)	(10,000)	(1,500)	-	-	(19,500)
Interim Food Security ²	(3,000)	(8,000)	(15,000)	(15,000)	(11,000)	(52,000)
Artisanal Tools ³	(500)	(500)	(500)	(500)	-	(2,000)
Construction Materials/ Simple Equipment ⁴	(1,000)	(2,000)	(2,500)	(2,500)	(2,000)	(10,000)
B. Secondary Urban Infrastructure Rehabilitation⁵	5,000	10,000	15,000	15,000	15,000	60,000
C. Basic Service Rehab- ilitation/Extension⁶	10,000	15,000	25,000	25,000	15,000	90,000
D. Market Revival⁷	12,750	13,250	24,500	32,250	32,250	115,000
Small/Medium Enterprise ⁸	(7,500)	(7,500)	(15,000)	(22,500)	(22,500)	(75,000)
Micro/Artisanal Enterprise ⁹	(3,750)	(3,750)	(7,500)	(7,500)	(7,500)	(30,000)
Labour Intensive Technology ¹⁰	(500)	(1,000)	(1,000)	(1,250)	(1,250)	(5,000)
Financial System Training ¹¹	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(5,000)
E. Associated Items	3,000	3,500	1,250	1,250	1,000	10,000
Refugee Return ¹²	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)
Demobilisation Planning/Coord- ination	(2,000)	(2,500)	-	-	-	(4,500)
	(1,000)	(1,000)	(1,250)	(1,250)	(1,000)	(5,500)
TOTAL	43,750	62,250	82,250	91,500	76,250	358,000

Notes:

1. Assumes 20,000 households. If over one-sixth of estimated demobilised are urban in origin this figure would be higher and analogous rural one lower. Divided into interim employment/training/household equipment and allowance on turning in arms and equipment.
2. Approximately 80,000 waged urban households are below the absolute poverty line because the minimum monthly salario is well below \$30. In principle a food supplement (to minimum wage for large households) and food subsidy programme do cover them as well as

the 120,000 who are in absolute poverty because of low household labour power. In fact both administrative and funding problems limit coverage. By 1996/97 the real minimum salario should - with recovery - have risen above \$30 per month after which general economic development will be relevant to the 120,000 and to a degree the 80,000 (though to few of the 120,000). Interim coverage of 10,000 households in 1993/4, 25,000 in 1994/5, 45,000 in 1996/7 and 35,000 in 1997/8 could reduce interim absolute poverty at \$250 to \$350 per year per household (including administration).

3. Many urban artisans (ex-artisans) cannot restore their livelihoods because they lack some or all of basic toolkit. Assumes 10,000 tool kits (tailors, builders, woodworkers, etc.) at average cost of \$200.
4. For self-help housing including neighbourhood block, brick making in canisas. Perhaps contributions - in kind - to 50,000 houses at \$100 each and 500 neighbourhood simple equipment sets at \$500 plus \$2.5 million training in simple construction/construction material skills
5. Excludes centre city main works and all main roads. Primarily ditches, drainage, levelling, minor public buildings, markets, etc., in canisas and some similar supporting work in poorer concreto areas. To be organised on labour intensive basis.
6. Rough estimate. Urban basic services are quantitatively less inadequate than rural but have significant quality problems. Figure excludes secondary/tertiary education and main hospitals but includes primary service worker (re)training and some secondary unit (e.g. small town hospital) rehabilitation or construction.
7. Market revival. While medium and large urban enterprises have more access to credit, present profit flows and foreign exchange than do rural this does not apply to artisanal, micro, small and newer medium scale ones other than urban transport. Employment, availability of goods/services, rehabilitation of two way urban-rural economic links all point to credit-training-technical services (e.g. accounting) packages accessible to these enterprises building on the Ministry of Labour and other body's experience.
8. 1,000 enterprises at \$50,000 average credit plus \$25 million applied skill and managerial training, services (especially accounting), administration and research. Probable employment 10,000 to 15,000.
9. 2,000 enterprises at \$10,000 average credit plus \$10 million related training, services, administration. Probable employment 10,00 to 15,000.
10. Pilot projects, adaptation/training, popularisation with special reference to construction (including mainline Urban Rehabilitation and large building construction not itself included as part of Reconstrucaio).
11. The medium through artisanal loan scheme's sustained success depends on training/retraining commercial bank (public and private) personnel to allow an adequate capacity to process and to evaluate loan applications promptly.
12. Very few refugees are from cities or large towns. Small town and rural wage earning households usually also engage (of necessity) in sector familial production. Therefore all refugees are treated as wage earners. Persons who chose to enter urban areas during war - rather than entering deslocado camps or afectado resettlement - are among intended beneficiaries of main Urban Reconstrucaio programmes but are not targeted as a separate category.
13. Some totals may not add exactly because of rounding.

Table 4

National Reconstruction: Possible Funding Projections
(\$000 1991 Prices)

Category	1993/4	1994/5	1995/6	1996/7	1997/8	Total
A. <u>Reallocation</u> ¹	40,000	190,000	290,000	345,000	325,000	1,190,000
From Emergencia ²	-	(50,000)	(125,000)	(200,000)	(200,000)	(575,000)
From Large Capital Projects ³	(25,000)	(100,000)	(100,000)	(75,000)	(50,000)	(350,000)
From Technical Assistance ⁴	(5,000)	(10,000)	(15,000)	(20,000)	(25,000)	(75,000)
From Military Expenditure ⁵	(10,000)	(30,000)	(50,000)	(50,000)	(50,000)	(190,000)
From Other Recurrent ⁶	NA	NA	NA	NA	NA	(-)
B. <u>Special Refugees</u> ⁷	79,500	121,500	95,000	73,500	44,500	414,000
Demobilisation ⁸	(40,000)	(64,000)	(56,500)	(42,500)	(26,500)	229,500
	(39,500)	(57,500)	(38,500)	(31,000)	(18,000)	184,500
C. <u>Domestic Fiscal Gain From Programme</u> ⁹	1,000	8,000	21,000	45,000	80,000	155,000
User Contributions ¹⁰	(-)	(5,000)	(15,000)	(35,000)	(65,000)	(120,000)
	(1,000)	(3,000)	(5,000)	(10,000)	(15,000)	(35,000)
D. <u>Sub-total</u> ¹	120,500	319,500	406,000	463,500	449,500	1,759,000
E. <u>Additional External Flow Needed</u> ¹¹	166,500	46,500	84,000	(14,500)	(69,250)	214,000
TOTAL ¹²	287,750	366,000	490,000	449,000	380,250	1,973,000

Notes:

1. Reallocation from 1991/2 levels of expenditure. In 1991/2 prices except for minimum salario rise to \$40. Does not include reduction of UNHCR, host government, local community contribution to refugees which now probably exceeds \$250,000,000 a year.
2. Excludes additional (to 1991/2 based) drought related costs.
3. Existing projects and successors. Assumes some new large capital intensive projects late in period with shift to developmento. Excludes new enterprise related, financially and externally self-liquidating enterprise investment, e.g. natural gas export, electricity production/transmission linked to exports (South Africa, Zimbabwe, Swaziland) and to direct import substitution (Maputo).

4. Substitution of domestic training (in this programme) for overseas training and of support for qualified Mozambican for provision of expatriates.
5. Wages, arms, vehicles, equipment, ammunition, fuel, spares, rations. Calculations speculative until trend of security makes possible detailed military spending reduction programme.
6. Total non Reconstrucao Recurrent spending is too low to provide basic minima of governance, services. Savings on some heads will be needed for increases on others.
7. UNHCR plus bilateral donors with peace promotion linked aid programmes (e.g. Japan). Calculated at external travel plus 20% of household rehabilitation and 10% of related service and infrastructure costs set out in Table 2. Refugees are 20% of total households covered.
8. Separate funding from bilaterals specifically concerned with restoration of peace, e.g. Switzerland, Italy Japan. Includes direct demob payment plus 9% rural household plus related services/infrastructure costs from Table 2. Demobilised households are estimated at 9% of all covered. Table 3 programme for domobilisados includes year's interim employment plus retraining.
9. Roughly estimated at 20% of programme generated additions to commercialised Gross Domestic Production. See Table 5 for fuller estimation for 1998/99.
10. Very rough estimate. Includes labour, materials, food as well as cash contributions.
11. Requirement for grants, very soft loans or reductions in actual external debt service payments (excluding arrears write-off or non-serviceable portion of amounts nominally due). Numbers in () are negative (i.e. reduction in external resource transfer requirement).
12. Equal To Costs from Tables 2, 3.

Table 5

1998/99 Reconstrucaõ GDP Impact
(\$000 at 1991 prices)

A. <u>Additional Rural GDP Related To Reconstrucaõ</u>			
1. <u>Sector Familial</u> ¹ (Programme Households)	<u>Provisioning</u>	<u>Sold</u>	<u>Total</u>
▪ Food (including animals, fish) ²	185,000	65,000	250,00
▪ Non-Food Crops (including Forest Products) ³	5,000	100,000	105,000
▪ Artisanal Products ⁴	35,000	15,000	50,000
▪ Home Farm Construction ⁵	55,000	-	55,000
▪ Basic Services In Kind ⁶	5,000	-	5,000
▪ Wages From Infrastructure Rehabilitation ⁷	-	25,000	25,000
TOTAL	285,000	205,000	490,000
Per Household (\$) ⁸	\$260	\$190	\$450
Rural Absolute Poverty Line ⁹		\$470 - \$520	
2. <u>Sector Familial</u> ¹⁰ (Other Households)	30,000	20,000	50,000
	<u>Wages</u>	<u>Other Value Added</u>	<u>Total</u>
3. <u>Public Services</u> ¹¹	30,000 ⁷	10,000	40,000
a) Basic Services	30,000	-	30,000
b) Infrastructure Rehabilitation	(7)	10,000	10,000 (35,000)
4. <u>Commerce/Transport</u> ^{11, 13}	All	Sold	107,500
a) Commerce ¹²			60,000
b) Transport ¹³			47,500
5. <u>Multiplier Effect</u> ¹⁵	Not Estimated		
TOTAL Reconstrucaõ Augmentation			
To Rural GDP ¹⁶		687,500	
Of Which Household Self Provisioning		(315,000)	
B. <u>Additional Urban GDP Related To Reconstrucaõ</u>			
	<u>Provisioning</u>	<u>Sold</u>	<u>Total</u>
1. Enterprise Added In Sales To: ¹⁷	-	175,000	175,000
▪ Rural Sector Familial	-	(90,000)	(90,000)
▪ Commerce/Transport	-	(40,000)	(40,000)
▪ Micro-Small Industry	-	(15,000)	(15,000)
▪ Urban Sector Familial	-	(7,500)	(7,500)
▪ Public Service Wage Earners	-	(7,500)	(7,500)
▪ Exports	-	(15,000)	(15,000)
2. Urban Sector Familial ("Informal")	2,000	12,000	14,000
Agriculture (Zonas Verdes) ¹⁸	(1,000)	(7,000)	(8,000)
Artisanal	(1,000)	(5,000)	(6,000)
3. Public Services	1,500	13,500	15,000
▪ Basic Services	(1,500) ¹⁹	(7,500)	(4,000)
▪ Infrastructure	(-)	(6,000)	(6,000)
4. TOTAL Direct Impact	3,500	201,500	205,000

5. Multiplier (25%) ²⁰	-	50,000	50,000
TOTAL - Urban GDP Increase Related To Reconstrucao ²¹		<u>3,500</u>	<u>251,500</u>
TOTAL - GDP Increase Related To Reconstrucao ^{16, 21, 22}	318,500	624,000	942,500

Notes:

1. Production for sale and household self-provisioning by the 1,100,000 households included in programme. Gross. Some households have low levels of present output not transferable on relocation. However, as this affects only 425,000 deslocado households and their production is (as valued) perhaps \$100 per household the difference is under 10%. All items valued at value added level.
2. Estimate 2,750,000 tonnes grain equivalent food of which 2,000,000 consumed by producers and 750,000 tonnes sold. Value at \$100/tonne farmgate less \$9.33/tonne purchased new labour inputs (\$25,000,000 total purchases). Relatively low as grain equivalent tonne of vegetables, fruits, livestock, fish fetches substantially more. (In the other crops cases also weighs substantially more.)
3. Includes both inputs into domestic industry and exports as well as household self-provisioning (especially in fuel). Probable leading crops cotton, cashew.
4. Furniture, clothing, metal products, etc. Assumed purchased input content \$10 million.
5. Assumed 1,100,000 homes lasting five years at value of \$250. No estimate of land improvements, tree crop stands, additions to livestock herds made.
6. Largely labour for construction materials, food, furnishings.
7. Labour intensive rural infrastructure rehabilitation as cited in Table 2.
8. Relates to 1,100,000 households in programme.
9. Rough Estimation/Family of 7:

	<u>Urban</u>	<u>Rural</u>	
Food	\$500	\$225	¹⁻⁾
Housing	100	50	²⁻⁾
Transport/Water			
Fuel	75	25	³⁻⁾
Other Goods/Services	<u>175</u>	<u>220</u>	⁴⁻⁾ (170) ⁵⁻⁾
Total	<u>\$850</u>	<u>\$520</u>	(470)

- 1-) Farmgate prices plus limited purchases.
- 2-) Maintenance/Rebuilding Cost Valuation
- 3-) Fuel perhaps \$2.5 and Water \$5 on basis rural prices/User Fees in kind and cash. Commuter transport urban phenomenon.
- 4-) Same basket - urban prices plus 25%.
- 5-) Altered basket relating artisanal to product for household use and different tastes.

10. The physical infrastructure and commercial network rehabilitation plus immediate (e.g. time saved) benefits of basic services rehabilitation will enable output/income increases in other sector familial households as will enhanced provision of agricultural extension services. Roughly estimated as equal to 10% of programme households' gains. On 30,000 present households that is \$170 per household.
11. Rough estimates based on Sector Familial sales/purchases. Value added basis.
12. 10% sales plus 15% purchases.
13. 10% sales plus 10% purchases.
14. Sales (Market Prices - including inputs plus value added)

Food/Other Crops	204.5 million
Artisanal Products	<u>19.5</u> "
	224.) "

Purchases

Sales	224 million
Infrastructure Wages	<u>25</u> "
	249 "

15. Presumably some multiplier can be expected. However, because basic rural purchases from the rural sector familial are relatively low (perhaps \$35 to \$40 million) the multiplier effect would be very low. Would tend to be partial offset of overestimation cited in Note 1.
16. Rural GDP will also rise from non-Reconstrucao Cotton Authority, Cashew Authority, Commercial Farmer and provision of competent training/extension to Irrigation schemes. This could amount to \$20 to \$25 million on food crops and \$25 to \$50 Million on non-food crops at value added level and \$50 to \$87½ million at sales level. If 1,500,000 rural households in 1998/9 that is \$30 to \$50 per household.
17. Assumptions:
 - a. Additional gross sales to rural sector equal additional sector familial purchases plus Commerce/Transport value added, less \$40 million rural-rural.
 - b. Sales to Micro-Small Industry equal wages plus one half other sectoral value added. Sales to commercialised Zonas Verdes and to the artisanal sector = value added. (Wages = 25,000 X \$600 = \$15,000,000; Artisanal Value Added 10,000 X \$500 = \$5,000,000; Zonas Verdes commercialised Value Added \$7,000,000; Other Value added \$20,000,000.)
 - c. Sales to public service wage earners equal wages (\$12,500,000).
 - d. Rural sales reduced by 33¹/₃% for transport/rural commerce content; urban by 5% for inputs into urban transport/commerce.
 - e. Value added estimated at 65% of (a + b) reduced by c. Allows 20% operating and spares imports, 2½% purchases from rural sector, 12½% taxes (actual collection of turnover taxes licenses not nominal amount due).
 - f. Guesstimate of \$25 million exports (fob) at 60% value added. The GDP here is value added in all urban sectors including commerce, transport and other enterprise/household produced services.

18. Assumes small urban infrastructure (e.g. drainage, small scale irrigation, roads, canisa site and service plot preparation, latrines) and time saving from closer water and health services empowers increase of 10,000 tonnes self-provisioning food (\$100/tonne) and 25,000 tonnes commercialised food (\$200/tonne) plus \$2 million fuel, building materials, other non-food crops.
19. User contribution in labour, food, materials to service cost. (Cash payments assumed to be \$6 million.)
20. This is a relatively low estimate because first round on wage incomes has already been taken into account.
21. Does not include large enterprise, Urban Rehabilitation and other Heavy Infrastructure (e.g. Railways and Ports) projects not within Reconstrucao.
22. Not directly comparable to present GDP estimates. These seriously underestimate current price GDP by using massively too low domestic price levels and inflation rates and very incomplete coverage of co-op, informal and private enterprise commercial agriculture and of small scale and artisanal urban production of goods and services which are only partly offset by massive overestimation of households self-provisioning (subsistence) agricultural output.

Table 6

Reconstrucao Fiscal Impact 1998/99
(\$ 000 Semi 1991 prices)¹

A. <u>Revenue</u>	<u>Urban</u>	<u>Rural</u>	<u>Total</u>
Additional Tax Revenue (20% Additional Commercialised GDP) ²	50,500	74,500	125,000
Cash Contributions To Basic Service Costs	6,000	12,500	18,500
TOTAL	56,000	87,000	143,000
B. <u>Expenditure</u>			
Basic Services ³			
Wages	10,000	30,000	40,000
Other	10,000	30,000	40,000
Small Scale Infrastructure ⁴			
Wages	5,000	25,000	30,000
Other	7,500	37,500	45,000
Interim Food Security ⁵	7,500	-	7,500
Continued Artisanal/Small Ent- erprise Enabling ⁶	7,500	7,500	15,000
 Gross Additional Expenditure	 47,500	 130,000	 177,500
Less:			
User Contribution In Goods/Labour ⁷	1,500	5,000	6,500
Reduction Military Expenditure ^{8,9}	[12,500]	[37,500]	50,000
Total Offsets	14,000	42,500	56,500
Net Additional Expenditure	33,500	87,500	106,000
C. <u>Net Fiscal Gain (Cost)</u>	23,000	(500)	22,500

Notes:

1. 1991 Prices except assumes real minimum salario moves to \$40 minimum efficiency level.
2. Shorthand estimate roughly comparable to other serious tax effort primarily agrarian Sub-Saharan African economies, e.g. Tanzania. By definition excludes Household Self-Provisioning from tax base.
3. Assumes continued build-up beyond 1997/98 levels.
4. Assumes continued run-down from 1995/96 peak levels as rehabilitation backlog reduced.
5. Continued run-down as real minimum wage recovery reduces numbers covered.
6. Training and Services - Loan Funds assumed by 1998/99 to have become largely revolving with additional investment in them on subsequent Developmento capital account.
7. See Table 5.
8. Urban (25%), Rural (75%) arbitrary - based on projected 1998/99 population division.
9. See Table 4 - Note 5.

Table 7

Reconstrucao GDP External Balance¹ Impact 1988/89
(000 \$)

<u>Exports</u>	
Rural ²	115,500
Urban ³	<u>25,000</u>
TOTAL Additional Exports	<u>140,500</u>
<u>Imports</u>	
Urban Goods Inputs ⁴	55,000
Rural Goods Inputs ⁵	NA
Transport ⁶	50,000
Government Services ⁷	<u>50,500</u>
Gross Additional Imports	<u>155,500</u>
Less:	
Reduction Military Imports ⁸	<u>25,000</u>
NET Additional Imports	<u>135,000</u>
NET Balance Improvement	<u>+ 5,000</u>

Notes:

1. Excludes grant, loan items. Specifically excludes reductions in food aid which affects Import/Export sides equally. (See Table 9.)
2. \$96,250,000 farmgate plus \$19,250,000 (20%) transport/commerce to fob.
3. See Table 5 - Note 17.
4. 20% of Gross Sales. (See Table 5 - Note 17.)
5. Included in Urban Goods Sales.
6. Rough estimate fuel, spares, replacement lorries.
7. 75% Non Wage spending on Basic Services, Small Scale Infrastructure from Table 6. Dominated by drugs and other medical supplies and paper/textbooks.
8. Rough implicit assumption is that net military savings include \$25,000 on items other than wages/rations/local purchases. Gross savings on the domestic purchases rations and wages items from Demobilascao should be of the order of \$30,000 but net will be substantially lower because of improved pay/rations/uniforms needed to achieve professionalism in 20,000 to 25,000 professional army post Demobilascao.

Table 8

Food (im) Balance - Reconstrucao Impact
(000 tonnes grain equivalent)

	<u>1990/91</u>		<u>1988/89</u>	
Population In Mozambique ¹	12,500,000		18,250,000	
Food Requirement ²	4,500,000 (100%)		6,570,000 (100%)	
Domestic Production ³	2,750,000 (61%)		5,710,000 (87%)	
Urban (Zonas Verdes)	(150,000) (3%)		(185,000) (1%)	
Household Consumed	(50,000) (1%)		(60,000) (-)	
Commercialised	(100,000) (2%)		(125,000) (1%)	
Rural	(2,600,000) (57%)		(5,525,000) (84%)	
Household Consumed	(2,200,000) (48%)		(4,400,000) (73%)	
Commercialised ⁴	(400,000) (9%)		(1,225,000) (11%)	
Imports ⁵	625,00 (14%)		400,000 (6%)	
Food Aid	(500,000) (11%)		(200,000) (3%)	
Commercial/Parallel	(125,000) (2%)		(200,000) (3%)	
Food Deficit	1,125,000 (25%)		460,000 (7%)	
<u>Urban/Rural Breakdown⁵</u>	<u>Urban</u>	<u>Rural</u>	<u>Urban</u>	<u>Rural</u>
Population In Mozambique	3,000,000	9,500,000	4,500,000	13,750,000
Food Requirement ⁶	1,080,000	3,420,000	1,620,000	4,950,000
Domestic Production	500,000	2,250,000	1,085,000	4,625,000
Urban	(150,000)	(-)	(185,000)	(-)
Rural	(350,000)	(2,250,000)	(900,000)	(4,625,000)
Household Consumed	(50,000)	(2,200,000)	(60,000)	(4,300,000)
Commercialised	(450,000)	(50,000)	(1,025,000)	(325,000)
Imports ⁵	400,000	225,000	375,000	25,000
Food Deficit ^{3,7}	180,000 (17%)	945,000 (27%)	160,000 (10%)	300,000 (6%)

Notes:

1. The official United Nations/Government of Mozambique projection of 16,000,000 is clearly wrong. Subtractions include 1,500,000 refugees and 1,000,000 excess deaths resulting from war. Preliminary data in 1991 suggested a total population of 12,500,000. 1988/89 assumes return of 1,500,000 refugees plus a 30% increase on the base population of 14,000,000, or about 3% a year.
2. Production level required assumed to be 360 kilos grain equivalent per year based on 800 grammes per day consumption requirement adjusted to allow for 20% loss from harvest (or import) to consumption.
3. This figure is not a complete estimate. Additions resulting from programmes by government and enterprises outside Reconstrucao (e.g. competent training and extension in both large and small scale irrigation areas, commercial farm food output expansion) are not included. These could amount to perhaps 200,000 to 250,000 tonnes reducing the deficit by half to 3% to 4% of total requirement. That does not mean only 3% to 4% of households (7% on Table 8 figures) have less than fully adequate food supplies because of inequality in distribution.

However, it should more than halve severe malnutrition from over 20% to 8% to 10%.

4. Estimates include all marketed output-local trade, private, co-op not only officially recorded flows.
5. 1990/91 may understate commercial imports via informal (legal apart from customs/turnover tax evasion) imports from South Africa, Zimbabwe, Malawi.
6. Assumes Urban population 4,500,000 in 1988/89 and Rural 13,750,000. Implicit urban population growth rate 7%.
7. 1990/91 deficit levels are plausible given known malnutrition data. 1989/90 estimate of slightly poorer urban than rural nutrition are not implausible; e.g. they probably parallel actual Tanzanian reality. They parallel estimates in Table 9 suggesting slightly higher proportions of absolute poverty (not numbers of absolutely poor people) in urban than in rural areas. Again this appears congruent with the present situation in Tanzania because while average urban household income is higher so too is inequality in food consumption and income. However, both differences are clearly within the margins of error of the projections.

Table 9

Absolute Poverty Reduction From Reconstrucaao

<u>Category</u> ¹	<u>1990/91</u>	<u>1998/99</u>
Urban ²	50%	27½%
▪ Related To Low Wages ³	(20%)	(5%)
▪ Related To Low Labour Power of Household plus Unemployment ⁴	(30%)	(22½%)
Rural	71%	22½%
▪ Of Livelihood Rehabilitation Programme Households ⁵	(90%)	(25%)
▪ Of Other Households ⁶	(30%)	(20%)
TOTAL ⁷	65%	24%

Notes:

1. See Table 5 - Note 9 for Absolute Poverty Line Estimates.
2. The percentages are of total urban absolutely poor households not of sub-population groups absolute poverty percentages.
3. Reduction from raising minimum real salario to \$40 (at or approaching minimum efficiency level).
4. Reduction from retraining; higher productivity employment in "informal" as well as recorded sector; higher productivity employment artisanal, Zonas Verdes producers plus reduction in open unemployment (about 4% of potentially economically active persons in 1991).
5. See Table 5 - Section A and Note 9. Average income is perhaps 10% below absolute poverty line. This implies 20% to 30% of households would be below it depending on household income inequality.
6. Benefits from spin-off GDP impact noted in Table 5 - Section B and Note 10. Likely to be reduced further by rural output increases not related to Reconstrucaao.
7. Because of parallel non-Reconstrucaao generated economic recovery - both urban and rural - the actual 1989/90 absolute poverty outcome should be marginally to modestly better than these projections.