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Poverty is increasing and deepening in Mozambique and the gap between the poorest half of the population and the better off half is widening, despite the rapid rise in GDP and the impressive expansion of roads, electricity and schools. The self-evaluation report published in February by the Mozambican Peer Review Mechanism Forum says that the number of people below the poverty line is increasing, and that the gap between rich and poor is widening, creating the potential for social exclusion and conflict.[1] The most recent analysis of rural income concludes that “the poorest households in 2005 are considerably poorer than the poorest households in 2002, while the wealthiest households in 2005 are considerably wealthier than the wealthiest households in 2002.”[2] UNICEF points out that children have poor nutrition in the overwhelming majority of Mozambican households, and the rate of chronic child malnutrition is actually rising.[3]

Average cash income in rural areas is just MT 16 per person per week – about $30 per person per year – but for the poorest 40% of families cash income is only MT 6 per person per week, $12 per year.[4] That is all the money available for everything that must be purchased – clothing, cooking oil, school expenses, medicines, as well as any agricultural inputs such as improved seeds or fertiliser. Rural households are so poor that 41% do not even own a chicken or duck.[5]

The majority of Mozambicans are caught in a “poverty trap” – they have no assets and tiny income. They are too poor to feed their children. A study in three villages in the north by Cruzeiro do Sul[6] showed that villages with more infrastructure such as roads and school were not richer than villages with less, because most people are so poor that they cannot make the tiny investments necessary to make use of new infrastructure. A study by Care[7] showed that only the better off join groups or associations, because the poorest have nothing to bring to the group. Experience with the “7 million meticais” being set aside each year for small productive investment in each district shows that new small business people cannot repay their loans, in large part

[1] Forum Nacional do MARP, pp 50, 64. The report says “Os indicadores mais credíveis apontam para um aumento em termos absolutos do número de pessoas abaixo do mínimo para subsistência”, which is an explicit rejection of government claims for a dramatic fall in poverty.
[2] Mather et al, December 2008.
[3] UNICEF 2006.
[4] Mather et al 2008. Data for 2005, from Trabalho de Inquérito Agrícola, income per person is for adult equivalents. Note this is the mean or average cash income; because the are a few relatively well off people, the median (or half way point) is roughly half of this. This suggests that poorest half of the rural population has a cash income of less than MT 7 per person per week. Also, this is cash income. For all but the best off quintile (20%), more than half of income is production for self-consumption.
[5] Mather et al, December 2008.
[6] Cruzeiro de Sul 2006, p 43.
[7] Whiteside and Gouveia 2003.

because they have been unable to sell their products. The development constraint in Mozambique is not supply, as argued by the international community and the present consensus development model, but rather demand – the poor are in a "poverty trap" which means they are simply too poor to buy.

"Domestic demand makes the largest contribution to economic growth in almost all of the LDCs [least developed countries]", according to UNCTAD, the United Nations Conference on Trade and Development.[8] Research shows that increased rural income is largely spent locally – on perishable goods, local services, and locally produced non-farm goods. UNCTAD finds that much of the money stimulates local demand, especially for goods produced by the poor. Increasing local income by $1 actually increases the total local economy by $2, because of the way money is recycled. Yet in Mozambique growth has been driven by foreign investment and exports, leaving behind the bulk of the population. And other countries which have tried models of stimulating supply, similar to the "7 million meticias", have found that it does not work because increased supply is not matched by an increased demand. In contrast, UNCTAD cites examples where increased demand "induces investment, entrepreneurship and employment in non-agricultural activities, particularly non-tradables. ... The critical factor which enables increased informal sector earnings is the stimulus of demand."

So far we have looked at Mozambican poverty only in terms of the way lack of demand is holding back economic development. But there are other social and economic issues. The Mozambican Peer Review Mechanism Forum warned that the widening chasm between rich and poor creates the potential for exclusion and conflict, so there are good political reasons for wanting to reduce poverty. Furthermore, there is growing evidence that more equal societies develop more rapidly, so growing inequality works against development.

Finally, there are two purely social reasons to want to increase the spending power of the poor. First, it is the easiest way to deal with the fact that half of Mozambique's children are malnourished and that malnutrition is increasing – which is both immoral and destroying the human capital on which Mozambique's development depends. Second, the Universal Declaration of Human rights article 25 says that everyone has a right to an "adequate" standard of living. Half of Mozambicans are denied that basic human right.

To increase demand, increase equity and reduce conflict, and meet the human rights of poor Mozambicans, it is essential that they have more money. UNCTAD stresses the importance of increasing agricultural productivity to increase farm income. Since most Mozambicans are too poor to invest in improved seeds and irrigation, inputs would need to be heavily subsidised. Malawi, for example, has a highly successful fertiliser subsidy. The alternative is to provide jobs. India is introducing a programme to guarantee everyone who want it two months work at minimum wage, for example building roads and dams. This raises local incomes, but labour intensive projects are complex and expensive to administer.

[8] UNCTAD 2006, ch 7.

The alternative is to simply give people money. Mozambique already does this in a small way, through the Food Subsidy Programme (PSA, Programa do Subsídio de Alimentos), which, despite its name, is largely a pension going to nearly 150,000 very poor old people. It ranges from MT 100 to MT 300 per month ($4 to $12), depending on the number of dependents.[9] This may seem like a tiny amount of money, until we remember that the average cash income per person for the poorest 40% of the rural population is only MT 25 per month.

In the remainder of this paper, we will argue for a substantial expansion of cash transfer programmes in Mozambique – to stimulate demand to spur development, to increase equity, and the meet the basic human rights of poor Mozambicans.

Social protection or blame the poor?

During the 20th century, and especially after the great depression of the 1930s, Europe developed a social protection system. Indeed, one reason the United Nations could in 1948 adopt the Universal Declaration of Human Rights with a commitment to an "adequate" standard of living was that many European countries had already shown it was possible. European countries all use a mix of programmes and in each one the mix is different. But they all have three components:

- Social insurance, which is linked to wage and tax payments, and provide insurance which guarantees income in periods of unemployment and ill health.
- Unconditional cash transfers. In Britain, for example, every child receives £13 (MT 500, $ 20) per week[10] – unconditionally.
- Welfare payments. Usually conditional and income related, the guarantee a minimum income to the poor, disabled, unemployed and low paid.

The impact of these cash transfers on poverty reduction is dramatic. In many countries, 30% of people would be below the poverty line, but with these cash transfers, the number falls below 10%. In addition, all European countries provide some guarantee of adequate health care and education.

The United States has never followed this model; there is some social insurance and welfare, but total transfers are small and more than 15% of the population is below the poverty line. Also, there is no guaranteed health care.

In the 1980s in the period of Margaret Thatcher in the UK and Ronald Reagan in the US, there was a partial withdrawal from social protection. There was a return to the rhetoric of the late 19th century, that the poor were responsible for their own poverty and if they were given money they would waste it. The poor had to be taught to be better people. The dominance of the US and its punitive thinking in forming the Washington Consensus of the Bretton Woods Institutions (BWIs), the World Bank and International Monetary Fund, meant that the European model was never allowed to be adopted in the south. Indeed, the whole aid industry is predicated on the 19th

[9] MT 100 per month plus MT 50 per month for each dependent, up to a maximum of MT 300.
[10] The first child in a family receives £20. The money is paid not to the child but to a parent or guardian.

century view that rich people should come in to train the poor and force them to behave properly. For the south, the BWIs introduced the concept of “safety nets” which would catch people if they temporarily fell and give them food or work to allow them to survive.

A whole range of reasons was given for why the European model could not be used in the south. But the main arguments that it would be too expensive and south could not afford social protection, and that the poor were responsible for their poverty and would waste the money and had to be forced to act in their own interest. Aid should be a safety net and bribe to buy good behaviour.

This was a model which won support from southern elites. They were told by the donors and BWIs that by becoming rich they were helping their countries grow, and they were happy to agree that poverty was the fault of the poor.

There was also one important reason why the European model could not be used in the South. The social insurance system requires that most people be in formal employment and be making contributions. But in the South a minority are in formal employment, and the rapid growth of an informal sector under Washington Consensus policies meant that even more people were excluded even from existing social insurance schemes. OECD in a recent report said that 60% of the global workforce are working without a formal labour contract and social security, and this will increase during the current global depression.[11]

The southern alternative[12]

In the late 1990s, four big southern countries – Mexico, Brazil, South Africa and Indonesia – independently rejected the northern view, and adopted large scale cash transfer programmes. In part, they were responding to the 1997-98 Asian financial crisis, which foreshadowed the world economic crisis a decade later, and from which they took two lessons: first that social protection was necessary for people thrown out of work, and second, that the northern imposed model of unregulated markets and small governments did not work. For South Africa, there was also the demand that the benefits enjoyed by white people under apartheid be made available to everyone.

Whereas the north was trying to imposed a blame-the-poor, welfare, safety-net approach, these four countries took a radically different line based on rights and the poverty trap model. They accepted that the poor had a right to an adequate standard of living, and that right had to be guaranteed by the state. They also looked at European history which showed that social protection came first, before economic growth, and was not something that could only be afforded later, as the BWIs claimed. Indeed, social protection is an investment in raising human capital, in encouraging people to make productive investment, and increasing demand. The key to the

[11] OECD 2009.
[12] The section draws on Hanlon 2009 and Hanlon et al forthcoming.

poverty trap model is the belief that poor people know how to escape poverty, but they lack the money.

South Africa has two unconditional cash transfers. Every child under 14 receives Rand 220 (MT 600, $25) per month and everyone over 63 who does not have a private or state pension receives R940 (MT 2500, $100) per month. Cash is now given to more than 8 million children and 2 million older people – as of right.

Five other SADC states now have social pensions paid by the government: Botswana, Lesotho, Mauritius, Namibia and Swaziland.

Brazil's programme is the largest in the world, with grants under the Bolsa Familia going to 11 million families. For the very poor, the grant is $26 (MT 650) for the family plus $8.5 (MT 200) for each child. Brazil spends 0.5% of GDP on bolsa familia. It has one condition – that children must go to school; this seems unnecessary as families want to send their children to school, but the condition seemed necessary to gain support from the middle classes. Interestingly, the programme is effectively self-enforcing – there is no check on the real income of people who claim to be poor, and their declaration is accepted. Yet there is little fraud. Perhaps, precisely because it is seen as a right and not charity, and because it is there if you fall below the poverty line, people respect the rules.

Mexico's Oportunidades reaches 5 million families with up to $150 (MT 3750) per month, and covers half the rural population.

The lessons from all of these programmes are the:

- Significant reduction in poverty and inequality.
- Reduction in malnutrition. (3 cm height increase among children in South Africa.)
- Increase in work seeking and labour participation.
- Investment. (Mexico – 88% of Oportunidades cash is spent on consumption but 12% is invested – and the investment is profitable.)

This shows that the poverty trap is real, and the poor people do know how to spend the money well.

Cash transfers as currently used in Mozambique and as promoted by the donor community are part of the "safety net" package introduced to cushion the damage to the poor caused by neo-liberalism and structural adjustment. And they are always characterised by giving money only to those below a very low extreme poverty line. The response from the South has been that cash transfers should not be seen as alms or a safety net, but rather as a way to satisfy the Universal Declaration of Human Rights guarantee of an adequate standard of living, and also as a fundamental part of a development strategy. Programmes such as Brazil's Bolsa Familia have a wealth cut-off rather than a poverty cut-off, so they go to the majority of the group, and they are seen as a right rather than as charity.

We are all poor here

As we have seen, there are a wide range of ways of doing cash transfers and a range of trade offs. Basically, there are two kinds of choices that need to be made. The first is whether or not to apply conditions, such as school attendance or looking for work. The evidence so far is that conditions make little difference to performance of recipients; the poor are good managers, already know how to do best for their family, and spend money wisely. But the better off tend to think not in terms of the poverty trap but in terms of blaming the poor and as charity, as a "safety net". Mozambique's own Minister of Women and Social Action, Virgilia Matabele, says her own food subsidy programme (PSA) is "alms" and that Mozambique should be opposed to alms. Conditions do not change the behaviour of the poor, but they are often necessary to gain middle class and elite acceptance for these programmes.

The PSA is a targeted benefit that aims to reach the poorest. But questions about targeting revolve around the commonly heard statement: "We are all poor here". More than 70% of Mozambicans are poor. Choosing a small group is socially divisive. If someone gets money and their neighbour does not, there will be allegations of influence, party links, witchcraft, etc. Even these small amounts of money will encourage corruption in the allocation. Furthermore, in Mozambique, even a small amount of money changes a family's status dramatically. A rural person living alone who receives the basic MT 100 per month is immediately better off than one-third of her neighbours. Yet the programme only reaches 15% of the estimated 1 million people over the age of 60, and selection of beneficiaries seems inconsistent and erratic.

The issue is whether to try to target the poorest of the poor or to opt for a more broadly based or universal grant. The most critical point is that imposing conditions and excluding people is both time consuming and expensive – and in Mozambique's case, quite ineffective and unfair. There is not detailed data available, but it appears that Mozambique spends as much administering the PSA as on the grants themselves, because of the high cost of identifying eligible people and giving them the money. To repeat, for every MT 1 given as a PSA benefit, it appears that MT 1 is spend on bureaucratic and administrative costs. This is inefficient by international standards, but it is generally true that excluding people is expensive, so the more broadly based the scheme is, the easier it is to administer and the smaller the administration cost.

More efficient ways to distribute money

Mozambique's PSA is caught up in a number of bureaucratic problems. Two key ones are the difficulties of obtaining identity cards, and other is the structure of the PSA programme itself based on local delegations and community representatives (pemanentes) who identify beneficiaries and hand out the money.

Although the Minister of Science and Technology, Venáncio Massingue has suggested a "smart card" which could serve many functions as well as being an identify card, it does appear that the present identify card system is so mired in corruption and vested interests as to be unreformable. So when electoral registration was required, an entirely new parallel system was created. The most recent census registered 9 million voters are a cost of MT 100 ($4) each.[13] The system was sophisticated with more than 3000 brigades spread out over the country, and equipped with briefcase computer systems which could record photos and fingerprints, issue voters cards, and compile a data base. A fingerprint checking system prevents multiple registration. Such a system could easily be used to register beneficiaries. Such a registration would have an important ancillary benefit, because it would support UNICEF's campaign to encourage birth registration.

There are a variety of systems used in Africa to distribute cash transfers. Namibia, which has a universal pension, sends armoured cars around the country each month. These are basically pick up trucks with a cash machine mounted on the back. Pensioners have a cash card and simply collect their pension from the cash machine. Illiterate pensioners seem to have no problem with remembering the pin number, but other countries have used fingerprints as an identifier. In Mozambique in 1994, after the war, 92,881 troops from both sides were demobilized and given their salary for two years, $7-24 per month (now equivalent to MT 175-600), which was collected every two months from a branch of the People's Development Bank (BPD, Banco Popular de Desenvolvimento), or at a post office which served as a BPD branch. Fifteen years ago, more districts had banks, but paying out cash transfers might serve as a stimulus to reopen local banks. It would be possible to contract with one or more commercial banks to run the system. This would have the additional advantage of promoting rural banking and encouraging recipients to open bank accounts.

New technology offers other ways of distributing money. The expansion of the post office system and the call for post office savings banks is one route. Electronic card reading machines could be installed in local shops and shopkeepers given a small fee for paying the money. Finally, mobile telephones are increasingly used for financial transactions, and could be used for cash transfers.

Thus it is clear that Mozambique could run a much larger cash transfer programme and do it significantly more efficiently than at present. But is it practical?

[13] *Mozambique Political Process Bulletin* 36, 18 Aug 2008.

What could be done in Mozambique?

It is often argued that despite the higher administrative cost, it is better to target the poorest because it is better to give more money to the poorest than a little bit to everyone. Although this may be true in theory, there are a number of arguments against. The biggest one is the most Mozambicans are poor. That means that any attempt to separate the desperately poor from those who are only very poor will be inaccurate, divisive, and plagued by corruption. And if we return to the original argument for cash transfers, which is to stimulate demand and boost the local economy, there is no strong argument for giving money to the extremely poor but not the very poor. A further point is that where a grant requires the recipient to apply for it, as in Mozambique, many of the poorest do not do so – because they are afraid of dealing with bureaucracy, because they are not sure what documents they need (do they need a Frelimo party card?), because they are illiterate, or simply because they do not want to admit they are poor or do not feel poorer than their neighbours. Universal grants mean much higher take-up by the poor who really need them.

To be sure, perhaps 30% of Mozambicans do not need additional cash on order to reach the “adequate” standard of living called for in the Universal Declaration of Human Rights, but is it worth trying to exclude them? As well as the administrative cost, there is a subtle political point – the middle class is more likely to support a “universal” benefit because they can, in theory, claim it as well. It becomes a right of everyone rather than alms for the feckless poor. But if it is made a little bit difficult to collect the cash transfer, for example by requiring that the money be collected in person, then many better off people will not bother to collect it – self exclusion can be better than administrative exclusion. The Brazilian Bolsa Família shows the psychology at work – the grant is a right of everyone who needs it, and since most people do, there is no stigma in applying, yet better off people say they do not need to exercise that right.

Most Mozambicans live in extended families with children and older people. That suggests the most efficient and non-divisive system of cash transfers would be a universal child benefit and/or a universal non-contributory pension.

But what would be a sensible level? The PSA is MT 100 per month for an elderly person and MT 50 per month for a dependent. Rural cash income averages MT 70 per month per person, but for the poorest 40%, it is MT 25 per person per month.

There are about 1 million Mozambicans over 60 and 600,000 over 65. If one assumes an administrative cost of 10%, then pensions of MT 100 per month would cost either MT 1.3 bn or MT 800 mn per year, which is 0.5% or 0.3% of total GDP. There are 9 million children under 14. To start with a small child benefit, at the MT 25 cash income level that 40% are below, would cost MT 3 bn per year, about 1.2% of GDP. These numbers are small enough to be affordable.

It might even be sensible to start in phases. A programme on pensions for only those over 65 and child benefit only for school age children 7 to 14 years old would cost less than 0.8% of

GDP (MT 2 bn or $80 mn per year) – this is only a bit larger than the annual budget for the "seven million" allocated for district projects for food production and job creation..

Initially, this would need to be paid for from aid, but this would reuire only a 5% increase in aid. This is plausible. Donors are committed to doubling aid to Africa and to keeping that promise despite the global economic depression, so that sort of increase for Mozambique is not unreasonable.

But in the longer term Mozambique will need to pay the bill. The biggest cash transfer in the world is presently in the US state of Alaska, where every resident receives a share of the oil revenues -- $3,269 (about MT 80,000) per person last year. Despite delays caused by the world depression, Mozambique will become a major mineral-energy exporter over the coming decade and it has pledged to join the Extractive Industries Transparency Initiative (EITI) during the three years. EITI requires more transparent accounting on state revenues from mining. The obvious choice is to follow the lead of Alaska and Bolivia, and allocate a portion of the earnings from electricity, gas, coal and other minerals to the cash transfer programme. This would provide a clear and permanent revenue stream and would allow the expansion of the programme, at least to cover all Mozambicans over 60 and under 15. These are not alms for the poor, but rather money to boost the economy and give the poor the resources to escape the poverty trap.

Cash transfers have three overlapping impacts. First, they directly alleviate poverty. Second, they break the demand constraint – the poor tend to spend the money locally of food and basic consumer goods, which stimulates the local economy. Third, and perhaps surprisingly, studies of existing cash transfer programmes show that some of the money is invested (and the promise of ongoing cash transfers releases savings for investment), either by buying goods for trade or production, or by funding a job-seeker in the city. And all studies show that the poor use the money wisely. A broadly based cash transfer could be the best way to ease immediate poverty and promote development – and it is practical and affordable.

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