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With a growing economy and a freshly-signed peace agreement, Mozambique's future looks bright. But it needs to act now to avoid the perils of the resource curse.

BY ROBERT LOONEY | SEPTEMBER 18, 2014 - 6:36 PM

On Sept. 5, the leader of Mozambique's Renamo opposition party came out of hiding to sign a peace deal with the ruling party, Frelimo. The agreement will bring an end to the 2-year-long conflict that began when the Renamo party — driven by its desire to have a greater say in the country's affairs and its insistence that past elections were rigged in favor of Frelimo — launched a series of low-level attacks on police and government forces. (The photo above shows the Renamo leader shaking hands with Mozambican President Armando Guebuza after signing the deal.) With all parties finally agreeing to end hostilities, the chances of signing a comprehensive peace deal before the Oct. 15 election are increasing. That's good news for Mozambique.

In fact, the country's future has never appeared brighter. Since its return to peace in 1992, following a bloody fight for independence and long civil war, the country has emerged as one of the world's most rapidly expanding economies. Between 1993 and 2000, the country's GDP growth averaged 5.7 percent, speeding up between 2001 and 2010 to 6.4 percent, to 7.3 percent in 2011. The recent violence did not impede growth — in fact, GDP expanded at a rate of 7.2 percent in 2012 and 7.0 percent in 2013, even as military convoys were required to safeguard the movement of goods and people between the northern and southern provinces, and sporadic attacks on the railway line slowed the transport of coal. Even before the cessation of hostilities, the World Bank was forecasting 2014 growth as high as 8.5 percent. GDP growth could go much higher as Mozambique enjoys a resource bonanza from major coal and offshore natural gas projects potentially valued at billions of dollars.

If equitably distributed, the natural resource windfall could boost the majority of Mozambique's population out of poverty. Unfortunately, new-found wealth in developing Africa has more often than not resulted in increased inequality, instability, and conflict, rather than a peaceful transition to broad-based prosperity. If history bears out, the economic boom could actually threaten the country's newfound, tentative stability. Whether Mozambique will be an exception depends, in part, on the willingness of the ruling party to maintain peace by allowing opposition political leaders a share of the wealth. To an even greater extent, it depends on what takes place in the country's long-neglected agricultural sector.

Despite Mozambique's impressive growth record, the majority of its population remains rural and poor. 70 percent of the country's 25.8 million citizens live in the countryside and depend on subsistence agriculture. Mozambique's per capita income averaged just $693 from 2009 to 2013, ranking below Afghanistan ($688), Bangladesh ($750), and Haiti ($776).

Mozambique made significant progress in reducing poverty for several years immediately following the civil war. The poverty rate fell from 69 percent in 1996-97 to 54 percent in 2003 — largely as a result of increased agricultural incomes and improved access to education. Unfortunately, the latest household survey data (2008-09) suggests that progress slowed thereafter, with more than half the population still living below the poverty line in 2008. Poverty was concentrated in rural areas and in the central and northern sections of the country, but poverty reduction programs were most successful in the already relatively affluent south and around urban centers, especially Maputo.

World Bank data for 2008 showed a wide disparity in the distribution of income. The poorest 60 percent of Mozambique's population had access to less than 30 percent of the country's income, while the richest 10 percent enjoyed over 36 percent. In 2011, the United Nations Development Program ranked Mozambique 184th of 187 countries on its Human Development Index, below so-called failed states such as Haiti (158th), Afghanistan (172nd), and the Central African Republic (179th).

Meanwhile, Mozambique's already low food security — or the capacity of its people to access adequate sources of nutrition — has deteriorated in recent years, despite high overall economic growth. The Economist Intelligence Unit's Index of Food Security (which measures food affordability, availability, quality, and safety) ranked Mozambique 90th out of 109 countries in 2012; this year, it dropped down to 101st. In fact, Mozambique's scores dropped in all categories in the last two years; in 2014, it was 109th in food quality and safety, 98th in food affordability, and 88th in food availability — a dismal showing for a predominantly agricultural country.

The inability of Mozambique's agricultural sector to meet the demands of its population became glaringly apparent in September 2010, when price increases for staple foods triggered riots in Maputo and other towns. Well aware of the country's food deficit, which became particularly severe starting in 2006, the government began to respond in the early 2000s with an agricultural strategy that relies on large-scale farming to expand food production and lower prices.

Since the government owns all land in Mozambique, it is able to grant agricultural companies exclusive rights to large parcels of land for 50 or 100 years at extremely favorable terms. While there is little transparency in such arrangements, NGOs have documented 18 deals so far involving 8 domestic and 10 transnational companies. In one case, the government reportedly offered Brazilian investors a staggering 6 million hectares to grow several different crops.

The theory behind these land deals is straightforward. The country has abundant land, but little capital and know-how to develop it. In contrast, companies from richer countries need land and can provide the necessary capital and skills. The result should be a win-win situation that delivers development while paying commercial returns.

In practice, this approach has met with strong local opposition, as illustrated by the ProSAVANA project. Jointly funded by the governments of Mozambique and Japan, with cooperation and assistance from Brazil, ProSAVANA plans to introduce large scale, monocrop farming to the savannah of Mozambique's Nacala Corridor. The project is modeled on an earlier Japanese/Brazilian soybean farming venture in the savannah of the Brazilian Cerrado.

Nacala Corridor citizens groups express doubts about the untried transfer of foreign cropping methods to a new environment and contend ProSAVANA is a blatant land grab that will displace local peasant farmers. While protests are not yet as violent as those that followed increases in food prices in 2010, the potential is certainly there. Residents of the Nacala Corridor complain that there was little transparency in awarding or planning the project, and that local farmers had no input. They fear ProSAVANA is a new variant of colonialism that threatens to transform them into rural laborers for giant agribusinesses and that jeopardizes their basic human rights. These concerns appear to be well founded: Similar large, foreign agribusinesses projects previously established in Mozambique without local consultation have failed to make good on promises to the farmers they displaced.

But these mammoth land deals are not the only option available to Mozambique's government. In 2010, former U.N. Secretary General Kofi Annan and the Africa Progress Panel (APP) proposed a viable alternative to the agribusiness model for African countries. Their approach focuses on giving smallholders a greater role in managing local farms, arguing that since most agricultural technology is scale-invariant (i.e., as effective on small farms as on large ones), large agribusinesses are not inherently more efficient.

In contrast to highly concentrated agribusiness strategy, the broad-based smallholder approach would give millions of peasant farms to up to 5 hectares each, making use of most of the available land. These peasants would farm the land on their own terms and for their own profit, with the initial support of subsidized inputs, such as mechanical ploughs, and assured markets. The government's newfound revenue sources from coal and soon natural gas could easily provide most of the needed funding. The smallholder approach would not only increase food security, but would contribute to social, political, and economic stability by increasing overall employment and enabling the survival of rural towns and villages.

The risks associated with the government's current agricultural strategy are high and the benefits problematic. Mozambique's food insecurity, widespread poverty, and increasing rural unemployment will likely make for a combustible mix when contrasted with highly concentrated pockets of wealth derived from mining, natural gas, and foreign agribusinesses. Once entrenched, these patterns will only become more exaggerated as more sources of revenue become available for rent capture by the country's elites.

When Mozambique was an impoverished nation, it might have had little choice but to encourage the entrance of large international agribusinesses. But with the growing resource boom, the country has the financial ability to adopt a more indigenous, broad-based agricultural strategy that improves stability and increases the speed of poverty reduction, while at the same time improving food security. Hopefully, the government will have the courage and foresight to shift to such a strategy before it's too late.