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# The Evolution of the Public Policy for Sustainable Development in Southern African Development Community: *The experience of Mozambique*<sup>1</sup>

Eduardo R. Graciano Geque<sup>2</sup>  
Renata Lèbre La Rovere<sup>3</sup>  
Nivalde José de Castro<sup>4</sup>

## Abstract

This paper discusses the evolution of sustainable development public policies of Southern African Development Community members, focusing on the experience of Mozambique. The strategies of development implemented in Mozambique were analysed and measured through national statistics data that help to figure out why some strategies were adopted instead of others. The study was carried out through literature review and document analysis. The results showed two important conclusions: (i) the free market development strategy used in Mozambique increases inequality and promotes a slow social development; and (ii) there are deep development differences between regions in Mozambique. From this point of view, it is argued that Mozambique should change its strategies of development from a free market policy to a developmental state policy through import substitution to increase growth. Besides, a new legal basis of wealth distribution could be created to reduce regional asymmetry and poverty.

Keywords: economic growth, sustainable development, free market development strategy and endogenous development.

JEL Classification

F54 O10 O19 O55 P11

## Introduction

This paper analyses the evolution of sustainable development public policies used by Southern African Development Community (SADC) countries from the 1960's<sup>5</sup> to the present date, based on the experience of Mozambique. It aims to understand some reasons of low social development in the region, through an analysis of the public policy strategies. The study is focused on two of the three dimensions of sustainable development: social development and economic growth. We disregard the environmental dimension because we want to highlight the gaps between economic growth and social development registered in the region in the last decades, through a literature review and documental analysis. The experience of the Southern African Power Pool<sup>6</sup> (SAPP) is used as an example<sup>7</sup> of how economic development may be coordinated in the region.

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<sup>2</sup> PhD student at Instituto de Economia of Universidade Federal do Rio de Janeiro. ([eduardogeque@gmail.com](mailto:eduardogeque@gmail.com))

<sup>3</sup> Associate Professor (4) of Instituto de Economia of Universidade Federal do Rio de Janeiro ([renataieufjr@gmail.com](mailto:renataieufjr@gmail.com))

<sup>4</sup> Associate Professor (1) of Instituto de Economia of Universidade Federal do Rio de Janeiro ([nivalde.castro@gmail.com](mailto:nivalde.castro@gmail.com))

<sup>5</sup> The 1960 is known as the decade of independence from colonialism of many African countries.

<sup>6</sup> Electric market of the Southern African development Community.

This study was motivated by the observation that in the last decades economies of the region have been growing but the poverty didn't reduce significantly. Thus, it analyses, in the first section, the economic growth and social development, from 1990 to 2015 in the SADC region and in Mozambique. The next section addresses the question of which development strategy is used in the SADC and Mozambique, bringing the experience of the SAPP and Mozambican strategies. After identification of the strategies used in SADC and in Mozambique, we discuss the suitable development strategy to improve social welfare in the SADC region and in Mozambique. Thus our study aims to debate strategic points for promotion of development of the poorest region in the world.

### **1. Free market development strategy versus developmental state**

Some authors observe that the free market model is a false development paradigm, as favourable examples of countries that have used it are hard to find. For instance, in Prussia there was an introduction of free market model, but it resulted in the collapse of the country's industrial system, which led to the resumption of the state intervention plan in 1811. Even Great Britain and the USA, the so called guardians of the free market, have developed by combining protectionism, subsidies and other policies that today they indicate as detrimental to the development of poor countries. In addition, economic history hides the fact that in developing countries, in the period in which the state dominated, there was more development than in the free market period (Chang, 2013; Mazzucato, 2014; Plum, 1979).

The free market model of development was developed and published for non developed countries by the Brandt<sup>8</sup> commission, at a time when Mozambique was facing two serious problems: the first was related to the decadence of the socialist models of centralized planning, which were chosen by the country since its independence in 1975 due to the collapse of the Soviet Union, and the second was triggered by the natural disaster of drought in 1983. These factors pushed the country to miserable levels of living and the only possible alternative at the time was to seek help from the West. As Abrahamsson and Nilsson say:

During the 1980s, following the collapse of the Soviet Union and the growing need for the Third World to follow the structural adjustment programs of the IMF and the World Bank, a new homogenization of opinion on development emerged. Modernization to reach the level of industrialized countries will now be done with the help of market forces and private economic actors. This new vision of the prerequisites for development, which emerged in the early 1980s, would have a decisive influence on Mozambique's future economic and political development (Abrahamsson & Nilsson, 1994, p. 100).

In fact, as the North - South cooperation paradigm in force obliges all aid recipients to implement the free market model, Mozambique has done so, having engaged in the Western scheme led by the World Bank and the International Monetary Fund. Henceforth, the entire Mozambican development policy was based on a free market theory, which engendered a society of ever deeper inequalities to this day. Although this theory of development, based on the orthodox theory of development, has limits, Mozambique continues to use it for two reasons: first, because this is the model suggested by the cooperation partners, and its application is a requirement to continue to receive foreign aid; second, due to the lack of alternative funding for State activities. Therefore, external dependence on the financing of the State Budget leads Mozambique not to follow the

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<sup>7</sup> The electric sector is used as an example because Mozambique exports electricity to SAPP and is the second major contributor to the Gross Domestic Product.

<sup>8</sup> In 1980, World Bank President Robert McNamara named Willy Brandt as the leader of the International Development Issues Committee, which issued a report, which was entered in the North-South magazine or the Brandt Report.

evolution of development models, a phenomenon registered in all economically dependent countries (Moyo, 2009).

According to Evans (2010) there are three strands of modern development theory, namely: the New Growth Theory (or endogenous development theory), the institutionalist approach to development, and the capacity approach. The New Growth Theory gained ground with studies by Solow in 1956 for having recognized and emphasized the importance of knowledge (ideas) and human capital in the process. However, the New Growth Theory alone may not produce the desired results if it is not complemented by efficient institutions. It assumes that the capital (both physical and human) and investment are the key elements of growth (Jones, 2000; Todaro & Smith, 2011). Endogenous development means improving local conditions by implementing local arrangements taking into account local circumstances. In the logic above, the development paradigm to be implemented in SubSaharian África should be a model of endogenous development combined with strong institutions. This is why Pimenta (2007), like Nipassa (2009), defends that the improvement of Africans' quality of life has to be induced by the Africans themselves in the context of the globalized economy, since the transnationalization of capital creates deep disruptions in the national economies. They lose autonomy in their process of accumulations the supranational spheres put pressure on the nations. It is necessary, then, to articulate the exogenous pressure with the endogenous reaction.

Thus, in today's world order, based on free-market economics, relations between nations are determined primarily by economic power, and thus help to establish a "false social contract" (in the terms of Rousseau<sup>9</sup>). There is an urgent need to re-establish equality between states where everyone feels equal, so that a "true social contract" may be built. How would this be possible in a globalized, capitalist society? Making the institutions of the (African) poorer states stronger and more competitive, as strengthening institutions of poor economies by resorting to foreign aid seems unworkable. In this view, another question arises: how to make the poorer states stronger and more competitive? The answer lies in establishing strong regional and/or continental social networks, particularly among African countries, through the union of poor countries. Solid social networks are able to activate mechanisms that improve the performance of institutions by creating laws that establish rules of procedure that contribute to the improvement of the living conditions of the population (Pimenta, 2007). This time, development can be seen as creating opportunities to improve the population's living conditions or, if considered good, to maintain them.

Defining development as creating opportunities, what kind of opportunities should be sought? The answer is simple: those that can provide the improvement of living conditions by implementing local arrangements taking into account the circumstances experienced at the time (opportunities favourable to endogenous development).

The theory of endogenous development, although consistent, does not explain how development can be induced. It explains the ideal and pertinent conditions for the induction of development, constituting an important philosophical presupposition for the attainment of the development objective. However, it should be remembered that triggering development depends on the existence of solid and competent public institutions, skilled labor, political will to induce development, a non-corrupt society (Jones, 2000; Mazzucato, 2014; Parra, 2005; Todaro & Smith, 2011). Only with institutions that are efficient and committed to the functions for which they were created can the developmental state be established. There is no universal formula for creating a developmental state. It is necessary to be aware of the

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<sup>9</sup> Check characteristics of man in the state of nature. Rousseau in *The Discourse on Inequality Among Men* says that property introduces inequality between men, the differentiation between the rich and the poor, the powerful and the weak, the master and the slave, to the predominance of the law of the strongest .

opportunities that open up, based on the experiences of other countries, adapting them to the domestic circumstances. One cannot adopt a standardized model, as liberal policies did, just because it proved to be efficient in one country, as institutions vary according to countries. The developmental state evolves in a process of constant and pondered learning. "Only a creative and flexible process of exploration and experimentation, which pays due attention to local situational points of departure, will succeed." (Evans, 2010, p. 38). Indeed, the unprecedented economic growth of the developed countries in the post-Second World War was due to the intervention of the State that offered monetary credit, labour legislation, competition, exchange rate and foreign trade, which promoted a new type of capitalism that combined public firms with private firms, market mechanisms with the regulation of the state. Moreover, many social scientists came to the conclusion that the economy that combined private enterprise with public interventions performed better than *laissez-faire* and better than centrally planned economies (Boyer, 1996).

However, as economic liberalization and open export-led activities, financial interests, and skilled workers engender high rates of economic growth, few people believe in state planning and public investment as the driving force for development economic (Rodrik, 2004b). From this point of view Rodrik (2004b) recommends that developing societies should incorporate private enterprise into a context of public action that encourages restructuring, diversification and technological dynamism beyond what market forces alone would generate. Nevertheless, economic liberalization does not lead to the development of countries, but rather to the strengthening of transnational corporations, as Evans (2010) and Hanlon (1997) have shown based on observations of East Asian and Mozambican experiences, respectively.

The system of innovation plays a crucial role in a process of development. In short, a system of innovation can be defined as the ensemble of elements and relationships which interact in the production, diffusion and use of new products, new processes and new markets (Lundvall, 2007; Robbins, 1968; Schumpeter, 1982). Authors argue that this system performs better if it is supported by the State (Lundvall et al, 2002; Mazzucato, 2014; Plum, 1979; Robbins, 1968). For instance, Cassiolato (2013) provides a living example of the inefficiency of Foreign Direct Investment, which is encouraged by the free market policy, in the article "'Transnational Corporations and Brazilian Technological Development: An Introduction to the Paper: underlying causes and some policy implications for Brazil'". This author observes that the expansion of Transnational Corporations (TNCs) to the rest of the world is nowadays a search for cheap labour, noting that the TNCs' subsidiaries are integrated in their headquarters and their research agendas and development (R & D) and innovation will be more subservient to the firm's global agenda. Even if a national innovation system is not generating innovation, it will always have complementary capabilities and assets useful to the global transnational strategy facilitated by Information and Communication Technologies. Now, this leads the subsidiaries to an accessory role and reinforces the subordination to their headquarters. Therefore, the process of technological decentralization operated in these terms privileges only links among developed countries.

In addition, Boyer goes even further by stating that "markets alone cannot decide on the optimal amount to be provided by the state to promote social welfare." And "economic theories do not prove that markets are always and in all circumstances the best way to allocate resources" (Boyer, 1996, p 20). Table 1 summarizes the promises of the free market and the respective results.

Table 1 - The Promises and the Free Market Offers

	<b>Promise</b>	<b>Result</b>
<b>1. Capital labor relation</b>	°Deregulation will allow full employment	°No clear impact
<b>2. Forms of competition</b>	°Deregulation will bring, more efficiency by the entry of new producers	°Re-regulation, less producers: from one national In the logic above, the development paradigm to be implemented in SubSaharian África should be a model of endogenous development combined with strong institutions oligopolistic form of competition to another more internationalized
<b>3. Monetary regime</b>	°Control of monetary base is possible ° It provides price stability, without departing from full-employment	° Monetary innovation prevents this control ° Price stability, but mass employment
<b>4. State</b>	° Minimal State will enhance growth and productivity	° Lack of public investment ° Poor private productivity due to the lack of education and infrastructures
<b>5. International regime</b>	° Smooth currency and exchange rates adjustments ° External disequilibria will not more exist ° Complete autonomy of national economic policies	° Large ups and downs of exchange rates ° Unprecedented and stable polarization of deficit and surplus countries ° Stronger constraints upon the national degree of ana-tomy in economic policy choices.

Source: Boyer (1996, p.21).

So, it's clear that deregulation, privatization, and liberalization have not yielded the expected results, thus, it is questioned whether market efficiency is a scientific issue or a belief. The answer to this question is that it is a belief because: evidence shows that flexibilization of labour contracts and the decentralization of collective bargaining have restricted real wage increases but have not solved mass unemployment in Europe (Boyer, 1996). Reforms and rationalization of the welfare state through privatization did not overcome the basic discrepancy between the increase in retirement needs, payments, health care for the elderly, adjustment of the education system. Financial deregulation also provides dismal results: exchange rates are more volatile than ever, uncertainty has become radical and systemic, economic policies are increasingly limited by daily valuation of financial markets.

Clearly, the only success of free market policies is the drastic reduction of inflation rates, but contrary to the promises of neoclassical economists, the costs were especially high in terms of employment and potential induced growth (Boyer 1996, p. 22).

Evans (2010, p. 43) stresses that “democracy is seen as a meta-institution that promotes high-quality institutions, which in turn promotes growth. (...) it is useful to think of political-participatory institutions as meta-institutions that invoke and aggregate local knowledge and therefore help build better institutions”. It is necessary to observe that the indispensability of the democracy for the development emphasized by Evans (2010) can be discussed, because some experiences of success happened in countries that began to develop in a military regime. Dambisa Moyo goes on to say that "what poor countries at the bottom of economic development need is not a multiparty democracy but a benevolent dictator who introduces the reforms needed to move the economy" (Moyo, 2009, p. 42), as happened with South Korea in the 1960s, China (socialist) Indonesia, Malaysia, Singapore, Taiwan and Thailand. Unfortunately, she concludes that, in many countries we have non-benevolent dictators.

Regarding the institutionalist approach to development, Evans (2010) points out that there are at least two prerequisites for a state to be developmental: to guarantee basic rights that can allow the expansion of people's capacities and provide social support to people through education quality, access to health services, among others. The second condition is to reduce spoliation. When spoiling elites seize the state, they become predators of such incentives, and consequently no development can be expected.

In the process of coordination of the developmental state, two types of externalities must be taken into account, namely: the externalities of information and coordination, presented below.

#### *Information and coordination externalities*

The issue of informational externalities was the subject of an analysis study by Peter Evans. He stressed that another important element in building a developmental state is the positive externality of information. The social partners should provide information. These must come from numerous and less organized sources, so that the decision to be taken has solid bases and social support.

The diversification of the productive structure needed to increase productivity requires the discovery of the cost of the economic structure, that is discovering what new economic activities can be produced at very low costs to be profitable. Entrepreneurs should try out new product lines. They should tinker with established foreign producer technologies and adapt them to local conditions. In low-income countries, entrepreneurs are not involved in self-discovery. They do not look for innovation or R & D, nor the creation of a new product, but for goods available in the world market that can be produced at home, at low cost. This will involve the adaptation of technology to domestic conditions (Evans, 2010).

The usefulness of a development project depends on knowing how well its results correspond to the collective preference of the communities served. Accurate information on such priorities at the community level is a *sine qua non* condition for the success of the developmental state of the twenty-first century. Without the existence of multiple channels for obtaining information, the developmental state will end up investing inefficiently and wasting precious public resources (Evans, 2010).

This argument suggests the need for a state alliance with research institutions to elucidate it on decision-making, thought survey studies to understand the real situation of the country on specific issues, on which a decision must be made.

Many projects, to be profitable, require large-scale, simultaneous investments. For example, in the case of orchids production in Taiwan, it was necessary to know if there was

electricity, if irrigation was available, if the logistics and transport network were in place, the quarantine process and other health measures had been protect plants from the diseases of neighbors. From this information, they began to produce orchids that the country has marketed abroad, as a reliable supplier of orchids of high quality. This is a classic coordination problem. New profitable industries may not develop if upstream and downstream investments are not stimulated simultaneously (Rodrik, 2004b).

Sometimes, when the industry in question is highly organized and the benefits of the desired investment are identifiable, coordination can be achieved without the government paying for this function. In places where the industry is yet to be organized, it needs the government's hand. An interesting but often neglected aspect of coordination failures is that they do not need subsidies, and to overcome them does not need a large government budget. In this context, coordination externalities differ from information externalities that require subsidies of some kind. Coordination failures follow the following logic: if investments are simultaneous, they all become profitable and therefore do not need to be ex post subsidized, unless there is an additional reason (a non-cash externality) that needs this type of subsidies. This can be achieved by true coordination - "company A will make this investment if company B makes that investment" or by designing ex ante subsidies that do not need to be paid ex post. The implicit bail-out or guarantee of investment is an example of such an ex-ante subsidy. If the government guarantees that the investor will be paid in full, if the project fails, it induces the investor to proceed with the investment. If the project is successful, the investor does not need any transfer of government income, and no allowance will be paid. This was the method used in South Korea. Policies to overcome coordination failures share an important characteristic with those focused on information externalities. Both sets of interventions should be activity oriented (innovation), rather than focused in sectors "per se" (Rodrik, 2004b).

In fact, some 20th-century development states, South Korea and Taiwan rose to the category of developed countries because the state was the leader in the process, coordinating the activities. There are two important tasks for a developmental state: bureaucratic capacity and capacity to form partnerships, which can be summarized in the term political capacities. When compared to non-industrialized bureaucracies in other regions, East Asian public bureaucracies are very close to the ideal type of Weberian bureaucracy. Meritocratic recruitment to public service and public careers that offer long-term rewards proportionate to those of the private sector were the institutional foundations of the economic miracle in East Asia. According to Evans, an increase of half a standard deviation in the Weberian score (an indicator of bureaucratic capacity) earned a twenty-six percent increase in GDP between 1970 and 1990 (Evans, 2010).

Therefore, development process may be programmed by the country itself. The international partners definitely do not provide good advice to development of undeveloped countries. For instance, in the 1980s and early 1990s, the World Bank leveraged the performance of the offshore financial centers of Honk Kong and Singapore and the rapid growth of the economies of Southeast Asia from Indonesia, Malaysia and Thailand to argue that economic development had been fostered by laissez-faire, with minimal government intervention. In the 1987 report, the World Bank used Honk Kong and Singapore as successful case studies of the free market economy. The report came under sharp criticism from academics, prompting the World Bank to draft another report in 1993, entitled *The East Asian Miracle*, where it admits the existence of industrial policy and protection of emergent industry in some states (Studwell, 2013). From this fact, one can draw the lesson that "a set of consistent state intervention policies made a difference in long-term development and failure. In Southeast Asian States, despite of their long and impressive growth period, governments have not reorganized agriculture, didn't create firms for global competitiveness, and accepted

the bad advice of rich countries to open the financial sectors, still in the initial phase” (Studwell, 2013, p. xvi).

The Asian experience of cohesive and competent bureaucracies and strategies seems to be a reality that the non-industrialized countries, like most of SADC, should pursue. Therefore, capable and cohesive bureaucracies (with political capacities) constitute the necessary collection for the State to achieve autonomy in search of a coherent national project. It should be noted that the case of Asian countries in the twentieth century must be seen with reference to their socio-political context. During this period, Korea and Taiwan went through deep agrarian reforms. In addition to agrarian reform, the State acted to compensate for the lack of capital among industrial elites, acting as a strategic ally of elites with the aim to promote industrialization. In this partnership, the agents of the State avoided being captured by the entrepreneurs whose objective is merely the profit. This attitude of maintaining autonomy in partnership is a recommended strategy for developmental states (Evans, 2010). On the contrary, in SADC, cooperation partners and elites retard development.

The largest "private" investment boom in China took place (at least until the mid-1990s) in village enterprises. They were businesses in which ownership was typically held by local governments. Private entrepreneurs have been effectively partners with the government (Rodrik, 2004a). In the Chinese system courts could not be invoked to protect property rights, therefore letting the government retain residual rights in the company may have been the second best mechanism for avoiding expropriation. Private businessmen felt secure not because the government was prevented from expropriating them, but because, sharing the profits, it had no interest in doing so. China gave market incentives through two-way reform rather than liberalization, which would have been the standard advice. Thus, in agriculture and industry, price efficiency was not achieved by abolishing planned quotas and allocations, but by allowing producers to negotiate market prices at the margin. In terms of international trade, openness was achieved not by reducing import protection but by creating special economic zones with different rules than those applied internally (Rodrik, 2004a).

In 2003, Jean Imbs<sup>10</sup> and Romain Wacziarg discovered how poor countries get richer, through sectoral and employment production becoming less concentrated and more diversified. They suggest that increases in sectoral specialization apply only to high-income economies. What is significant here is that they contest the perspective of the principle of competitive advantage. The logic of competitive advantage is that of specialization. It is the specialization that generally raises productivity in an economy that is open to trade. The findings of Imbs and Wacziarg suggest otherwise. In the conduct of economic development, it cannot be the forces of comparative advantage to be taken into account, as conventionally understood. The trick seems to be to gain mastery over a wide range of activities, rather than focusing on what is best (Rodrik, 2004b). Another important factor is the security that investors should feel about their property. From the example of China and Russia, it follows that for a regime to protect investors effectively it must not be corrupt and must be legally independent of the executive branch. The creation of such a judicial system is difficult at low levels of income and takes time. To strengthen property rights by simply rewriting formal aspects of domestic legislation is not effective to change the institutional environment. This seems to have been the trap in which the transition from Russia was caught for some time (Rodrik, 2004a).

The initial surge of growth can be achieved with minimal changes in institutional arrangements. We need to distinguish between stimulating economic growth and sustaining it. Strong institutions are far more important to the latter than to the former. South Korea's

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<sup>10</sup> Imbs is an economist and professor at the London Business School and Wacziarg is also an economist and professor at the Graduate School of Business. Both research the theme on the diversification of production, identifying their phases.

experience in the 1960s was similar. The military government led by Park Chung Hee, who took power in 1961, implemented several public investment projects in a process of trial and error. A similar strategy was adopted in other Asian countries over a two-generation period. Asian tigers (Hong Kong and Singapore) have become industrialized countries because of the combination of income increases with the transformation of their economies. This transformation was based on the combination of highly productive agriculture and industry, in addition to high value-added services (Evans, 2010). As these cases illustrate, a change of attitude on the part of high political leadership towards a more targeted market often plays such a large role as in the context of political reform itself. Countries do not need an extensive set of institutional reforms in order to start growing. Instigating growth is much easier in practice than following the Washington consensus standard recipes, with its long list of institutional and governance reforms. The trick is to be able to identify constraints on economic growth. In South Korea in 1961, the great constraint was probably the big difference between social and private return for investment. In China in 1978, the restriction was, of course, the absence of market-oriented incentives. In India, from 1980, it was the government that was perceived as very hostile to the private sector. In 1983 Chile was an overvalued exchange rate. Of course, it is much easier to determine these things ex-post than it ex ante (Rodrik, 2004a).

The importance of autonomy and coordination in the process of industrialization and reduction of plundering, where the State coordinates development activities satisfying both growth and social development, is emphasized here. In China, there was also a reduction in dispossession, with the elimination of agrarian landlords, and investment in capacity expansion in health and education. In addition, East Asian tigers have devoted themselves to the amount of investment in human capital. These countries began their eras of accelerated economic growth with levels of education that placed them ahead from other countries of the same income level, and continued to invest heavily in expanding education throughout their periods of rapid growth (Evans, 2010). Far from promoting investment in industrial units and equipment to increase manufacturing output, as international agencies have advised to poor countries, both Korea and Taiwan have been concerned with increasing local firms' access to productive ideas and creating networks and incentives to encourage entrepreneurs to greater emphasis on the production of new knowledge. In addition to discovering ways to transplant and exploit the wealth of knowledge belonging to American and European companies, East Asian tigers resisted their campaigns to assert their monopoly control over intangible assets (Evans, 2010).

This idea is also shared by Rodrik (2004b), noting that to induce development, a middle ground is necessary. Market forces and the private sector (entrepreneurship) must be drivers of the development agenda, but governments also play a strategic and coordinating role in the productive sphere, ensuring property rights, contract compliance and macroeconomic stability.

Based on the above, it is concluded that there are three characteristics of the developmental state of the 21st century:

a) Must be focused on capacity enhancement. The expansion of citizenship capacities creates welfare and generates a sustainable growth of general GDP;

b) The developmental state of the 21st century should strengthen capacities through the efficient provision of collective goods: health, education, especially water, accessible public transportation. The efficient supply of collective goods and infrastructures depends on political bases. However, this intervention requires a knowledge of the goods demanded by society.

c) Active democratic structures are the substratum necessary for effective economic action "(Evans, 2010, 38).

In fact, as Cassiolato and Lastres (2005) note, productive activities are now based on knowledge and democratic structures that allow provision of knowledge useful for development. For this reason, innovation is considered as one of the fundamental variables in the process and in the competitiveness of organizations and countries, a point of view focused by Evans when affirming that the model of development in the XXI century should prioritize the expansion of capacities. "The incomprehension of the peculiarities of the innovative process and its consequences for development has led to misunderstandings that prevent progress in the creation of proposals and political implementations that take into account the challenges and opportunities currently posed to society and the economy" ( Cassiolato & Lastres, 2005, p. 35). Therefore, the success of a company can be explained by its connection with flows of knowledge coming from productive agents of the same production chain and from universities.

In fact, it is innovation that allows growth, economy restructuring and increases in productivity. Industrial restructuring rarely occurs without significant government assistance. International experience shows that behind the non-traditional export success stories from anywhere in the world are industrial policies, public R & D, sector support, export subsidies, referential regimes, and other similar interventions that are hidden beneath the surface. For example, it was because of preferential support policies and import substitution policies that notable advances happened in some productive areas in East Asia and Latin America (Brazil, Chile and Mexico). In the case of Brazil, steel, airplanes, and (to a large extent) footwear industries are all the result of import substitution policies of the past. High levels of protection (steel and shoes) and public ownership, public R & D and subsidized credit (airplanes) were deliberately used to generate rents for entrepreneurs to invest in new areas and to build industrial groups. In Chile, industrial policies also played an important role in the production of grapes, forestry, and salmon. "Fundacion Chile" created the salmon industry off the land. In grapes, it was significant public R & D in the 1960s that transformed an industry that was geared primarily to the local market into a global powerhouse. And in forestry, there is a history of at least 60 years of subsidizing plantations, as well as a major push from 1974 to transform wood, pulp and paper, and furniture group into a large export industry (Rodrik, 2004b). The diversification of production in Chile is not the result of free market policies. In Mexico, car engines and computer industries resulted from the creation of import substitution policies (initially), followed by preferential tariff policies under NAFTA<sup>11</sup>. All these success stories are the result of proper industrial policies and the adulteration of market forces. As there is no development without industrialization, industrial policy objectives should focus on how it is to be targeted. In this scenario, the agent-principal model<sup>12</sup>, with the government as the principal, firms as its agent, and an ideal policy that aligns the behaviour of agents with the objectives of the principal at the lowest cost does not work very well. What is needed instead is a more flexible form of strategic collaboration between the public and private sectors to obtain information about objectives, distribute responsibility for solutions, and assess how results appear (Rodrik, 2004b). Social actors, in turn, must be seriously committed to the capacity expansion project. The state can only achieve the developmental objective if society cooperates for this purpose. Only with this collaboration can investment have plausible results. In this process of establishing links between state and society, it is imperative that the state facilitates the organization of civil society (Evans, 2010).

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<sup>11</sup> North American Free Trade Agreement.

<sup>12</sup> Inserted in the context of the new institutional approach, the agent-principal model analyzes the influence of institutional arrangements on the behaviour of economic agents to better understand how the "rules of the game" impact on the outcome of the relationships that occur between these agents, in order to reduce the uncertainties of the interaction.

The construction and transmission of new values, such as development values, is done by institutions. An institution is composed of a set of values, on the basis of which decisions are made that influence the behaviour of its members. It means that an institution must be adequately designed to meet society's expectations. The society indicates the preferences presenting a set of opinions to be chosen. This means that the institutional framework is not only what "ought to be" but also strongly influences preferences, builds identities and produces values for community consumption (Parra, 2005). There are pitfalls that can jeopardize developmental states in the 21st century. One of the pitfalls that the developmental state has is that some Governments do not take into account the goals of expanding capabilities or welfare and do not commit themselves to economic growth, in what can be called "emptying of concepts". To empty a concept would be precisely the use of the label of policies considered efficient by a government, without, however, operationalising it. This can be by incapacity or by premeditation for self-benefit. For instance the concept of democracy has been emptied in many developing countries, where it is limited to the holding of elections. Another eminent trap is the implementation of a model of developmental state ignoring previous local experiences. Therefore,

pretending that there has been no change is an invitation for local capital and its transnational allies to execute their own agenda, diverting state policies in directions that will allow them to capture resources and subsidize profits without contributing to capacity expansion. To allow this capture to masquerade as a developmental alliance is the greatest trap for the developmental state of the 21st century (Evans, 2010, p. 52).

It is an attractive trap that will be strongly applauded by both the local economic elites and the world economic elites. On the contrary, states that are guided by a truly developmental state will be criticized by both. Another pitfall is to neglect the contribution of the other components of the project, sticking to the opinion of experts who appear with finished formulas. In sum, two main pitfalls are set for the 21st century developmental states: top-down blind relationships with communities and the risk of the state being captured by private capital. In addition, it is important to reiterate that the project to create developmental states in the 21st century must remain at the center of the state agenda, because it is still a valid paradigm, for these reasons: (i) it is a strategy that privileges both well-being and growth; (ii) uses heavy labor and the resulting fruit of growth is shared; and (iii) is an ecologically viable model (Evans, 2010, p.54).

## **2. Economic growth and social development in SADC**

Since the independence of the African countries in 1960's many development strategies have been implemented in each country. However these development strategies had poor results. Until 1990 the region of sub Saharan Africa (where is located SADC) was the second poorest region of the world, with 54% of poor people, while the first place were held by East Asia region with 60% of poor people. In 2002 the poverty in Sub-Saharan Africa increased to 556% while in the East Asia decreased to 29%. In 2013 the Sub-Saharan Africa region maintained its leadership with 41% of poor people, while in the other regions the poverty decreased significantly. Indeed the World Bank (2013) notes that in the last decade the region was one of the regions that recorded one of the major economic growth.

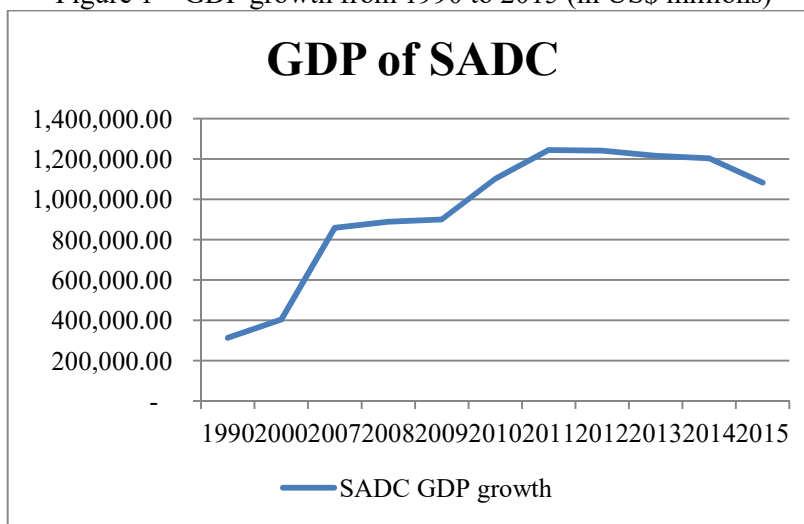
This fact calls attention for the development strategies implemented in Sub-Saharan Africa and show clearly that there is a gap between economic growth and social development, because poverty is not being reduced as expected. In fact the position of the poorest region in the world is held by this region and there is no indication that it can change

in short time, as pointed by the Interim Chief Economist of the World Bank for Africa Francisco Ferreira:

Africa has grown faster in the last decade than many other regions, but did not reduce poverty at the same pace. Growth in Africa is not capable to reduce poverty because of the high income inequality. Growth with equality is possible but it needs inequality reduction both in results and opportunities (WorldBank, 2013<sup>13</sup>).

In fact macroeconomic data of the Southern African Development Community<sup>14</sup> (SADC) members shows weak growth from 1990 to 2000. But from this year on it has been growing significantly until 2014, when the crisis rose, as shown in a figure 1.

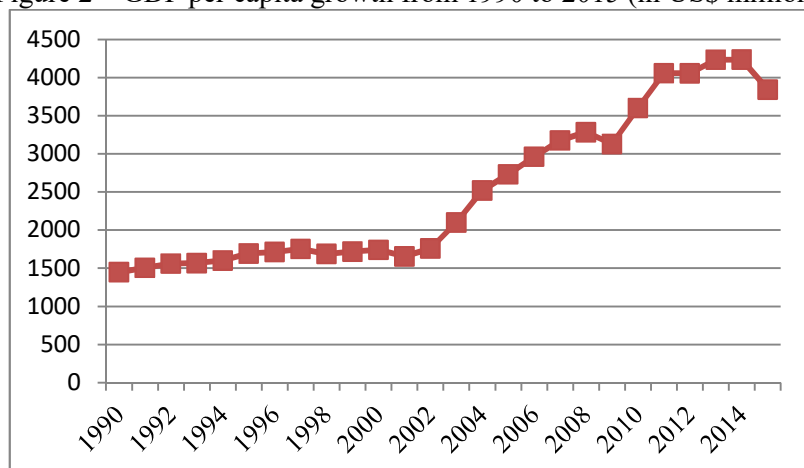
Figure 1 – GDP growth from 1990 to 2015 (in US\$ millions)



Source: authors' compilation from The World Bank, 2017a data.

In addition, the GDP per capita grew as shown by Figure 2.

Figure 2 – GDP per capita growth from 1990 to 2015 (in US\$ millions)



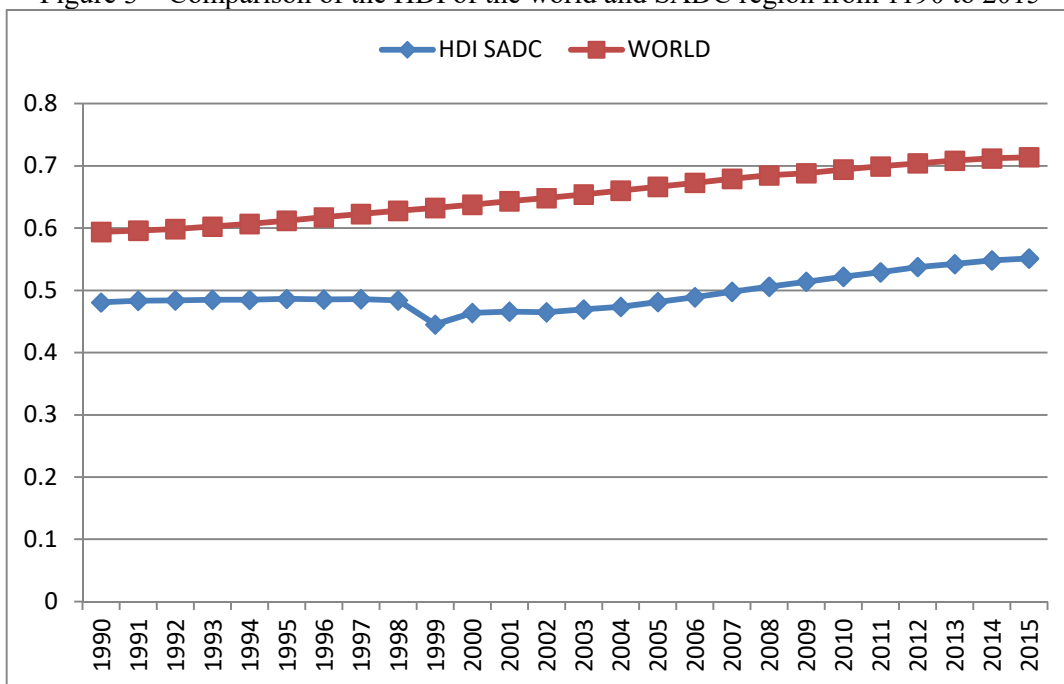
Source: authors' compilation from the The World Bank, 2017b data.

Nevertheless this economic growth the Human Development Index (HDI) of the region is low, as shown in figure 3.

<sup>13</sup> Document in htm format.

<sup>14</sup> Includes national data of Angola, Botswana, Congo Democratic, Lesotho, Mozambique, Mauritius, Malawi, Namibia, Seychelles and Swaziland (Zambia and Zimbabwe data are missing).

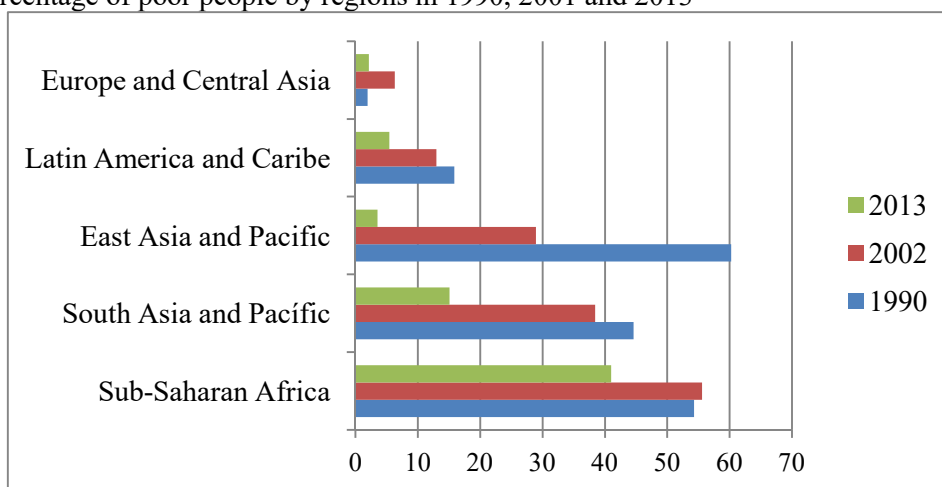
Figure 3 – Comparison of the HDI of the world and SADC region from 1990 to 2015



Source: authors' compilation from UNDP, 2017.

The evidence of the problem is highlighted by the regional data that show a moderate reduction of poverty in the SADC region. Still, poor people in this region represent 40% of the total population while this ration in other regions are below 16% as illustrated by figure 4. This scenario raises the debate about the strategies that are used for a long term development in SADC countries and their impact for sustainable development. Thus it demands an analysis on how governments plan their development, which calls for a public policy for sustainable development focused in social issues.

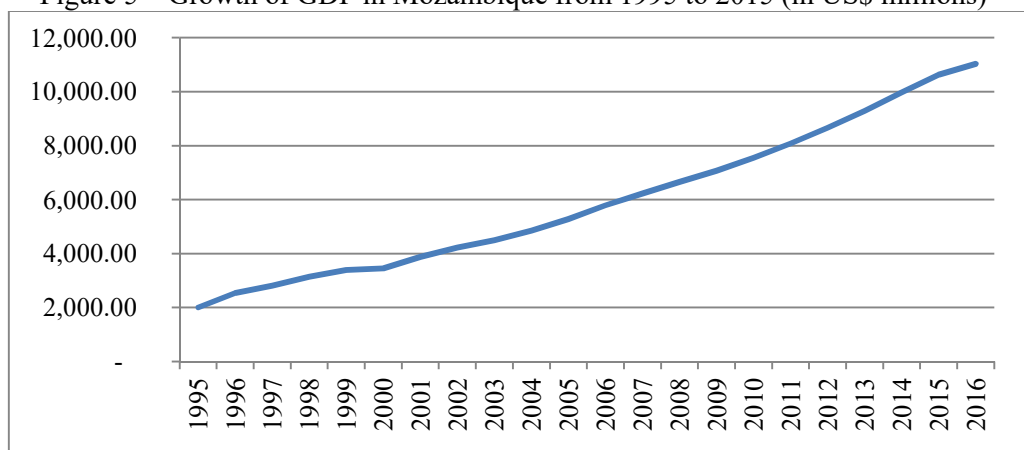
Figure 4 – Percentage of poor people by regions in 1990, 2001 and 2013



Source: authors' compilation from The World Bank, 2017c data.

The Mozambican data show almost the same situation of the SADC region. The Gross Domestic Product (GDP) has been growing in the last decades. The growth is driven by megaprojects implemented in several areas of the country, mainly the aluminium industry and the electric sector with 18,1% and 2,22% respectively. The growth of GDP is shown in Figure 5.

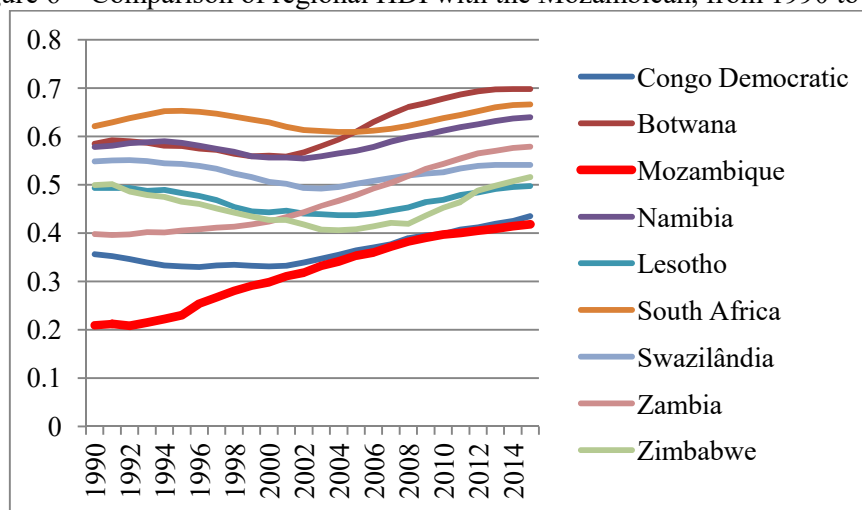
Figure 5 – Growth of GDP in Mozambique from 1995 to 2015 (in US\$ millions)<sup>15</sup>



Source: Instituto Nacional de Estatística, 2018.

Although this significant economic growth, the HDI doesn't follow the observed trend. Besides, the Mozambican HDI is the lower of the region of SADC, as observed in Figure 6.

Figure 6 – Comparison of regional HDI with the Mozambican, from 1990 to 2014



Source: UNDP, 2017.

These data show that economic growth of SADC region does not create better conditions of life for the population at the same pace and that the social development in Mozambique is similar to the regional one. There is economic growth without development. So, in the next section we examine the development strategy used in SADC region and in Mozambique.

<sup>15</sup> At constant prices and exchange rates of 31 January 2018.

### 3. Which development model may be good for Southern Africa?

Anyanw's (2006) research shows that in most of the 1980s and early 1990s, the deterioration of socioeconomic conditions in Africa has increased. This has brought to the forefront the need for macroeconomic reform and adjustment of programs to improve these conditions. As a result, many countries have implemented reform programs with bilateral and multilateral development agencies assistance. Based on the liberalization of the economy, the reforms emphasized the efficient functioning of markets and prices. That is how, between 1991 and 2003, growth has averaged 3.4% per year compared to the average of 1.5% in the first half of the last decade. Anyanw (2006) emphasizes that this growth is still far from realizing the needs and potential of the continent. Considering current population growth rates on the continent, recent empirical evidence suggests that Africa should achieve 7-8 per cent economic development rates in order to end and reverse the increase in poverty (Anyanw, 2006).

On the other hand, Yasin (2005) in the article "Official Assistance for Development and the Flow of Foreign Direct Investment in Sub-Saharan Africa" investigates the relationship between Official Development Assistance (ODA) and Foreign Direct Investment using the information from a panel of eleven (11) countries in Sub-saharan Africa from 1990 to 2003. The main objective of the paper is not to exhaustively examine the determinants of FDI flows but to investigate whether there are significant positive relation between the Official Assistance for the Development and the Foreign Direct Investment. After his analysis, this author concludes that Official Development Assistance has a significant and positive influence on the flow of Foreign Direct Investment. The main thesis of the article is therefore that Official Development Assistance positively influences the aggregation of the flow of Direct Investment and its extension, since ODA programs help in removing some obstacles to FDI flows, such as market regulations excessive and other government defects, and improve the conditions for attracting FDI. In addition, free trade (imposed by Official Assistance for Development), the development of labour force and favourable exchange rates, have a positive and significant effect. In other words, Official Development Assistance familiarises beneficiary countries with investor's rules-based relationships (Yasin, 2005).

Paradoxically, foreign direct investments do not contribute to the development of poor nations, although multinationals influence the politics of states, behaving above them, in the name of international economic freedom. In short, globalizing financial activities are not productive (Chang, 2013; Moyo, 2009; Pimenta, 2007). As Pimenta (2007, p. 8), notes "the IMF failed to serve the world's economic interests to serve the world's financial interests. The liberalization of the capital market may not have contributed to global economic stability, but opened wide new markets to Wall Street. "

Turning to the Mozambican case, it is noted that there is a lot of flow of foreign aid funds, but Mozambique does not develop. And the question is: what does foreign aid mean for Mozambique?(Nipassa, 2009). Some argue that it is beneficial, while others say no, it only serves to make Mozambique poorer. In this discussion, Moyo (2009) categorically says that foreign aid is the Africa's underdevelopment factor. More than \$ 300 billion has been transferred to African countries and instead of developing them it has impoverished them even more.

In fact, there are many advisors to underdeveloped countries and to Mozambique, in particular, who advise on their "development" using various theories:

- the World Bank (WB), which suggests as a solution to poverty the promotion of the private sector;
- the International Monetary Fund (IMF) advising it to have fiscal discipline;

- Non-Governmental Organizations (NGOs) that for them the key to development is civil society;
- the New Partnership for Africa's Development which calls for strong States;
- the International Trade Organization whose revenue is the eradication of protectionism (Nipassa, 2009).

In this path, the IMF admits that Mozambique has been faithfully following the advice given by it (Hanlon, 1997). However, the situation tends to worsen even more. Some analysts assert that the IMF is structuring African economies into a model that will make them look like the classical colonial economy of exports-imports. In the same way, father Francisco Ponsi of the Catholic University of Mozambique classifies World Bank (WB) and IMF policies as neocolonialists, which is the contemporary phase of globally successful capitalism, whose head of the (global capitalist) system is the WB and the IMF that provides and creates monolithic power structures favouring rich and industrialized countries to the detriment of Third and Fourth Worlds (Hanlon, 1997). Along the same lines, the former Archbishop of Nampula, Manuel Vieira Pinto, concluded that "the economic crisis is in the interests of the World Bank and the IMF. They lose power if a country is autonomous, and can say, 'We're fine, we do not need your money'. It is in the interests of the Bank and the Fund to maintain this crisis " (Hanlon, 1997, p. 138).

This World Bank practice is implemented everywhere it invests. For instance, in Brazil, the Small Producer Support Program, estimated at USD \$ 826 million, has been implemented since 1985. Due to the shortfall in the disbursement of USD 500 million, it was reformulated in 1993 to reduce expenses with technical assistance, agricultural research, and program management that absorbed much of the resources to the detriment of the poor households to which the value was intended, a regular practice in World Bank financing. The assessment made by the Interministerial Working Group, in the states of Paraíba, Pernambuco, Alagoas, Rio Grande do Norte and Ceará, concluded that the management of the fund facilitated the spatial dispersion of actions, causing resource spraying and political use; (continuity capacity after the end of funding), concludes that the prospects are not encouraging and propose evaluations of efficiency and effectiveness of PAPP projects. In view of this prospect of inefficiency of the program, the World Bank sent its own technicians and the FAO (Food and Agriculture Organization of the United Nations) in 1995 to evaluate the program. Unsurprisingly, these did not go to the field, and requested data from the executors of the projects. Based on data from 52 projects from 10 States sent to them, they concluded that the program was a positive experience. They asserted that productive projects have positive impacts on income, employment and have a high internal rate of return (above 50%) and ends up reiterating their financial sustainability. After this report, the wave of contracting of the financing exploded: the States of Bahia, Ceará and Sergipe were captured by the World Bank trap, obtained financing authorized by the Federal Government in the second half of 1995. On the other hand, the third evaluation concluded that "projects are not reaching the goal of improving the living conditions of poor communities, since most were disabled ... only 16% of productive projects would have satisfactory perspectives of sustainability" (Soares, 1997, p.160).

Paradoxically, the First World points exclusively to corruption as the factor of underdevelopment in Africa, and the way in which former United States Secretary O'Neill expressed himself seems that it is only the poor countries are guilty on it: "we have spent

trillions of dollars on this problems and we have damn near nothing to show for it " (Sacks, 2005, p. 310).

These data show that Africa is governed by global rules in international economic relations because of globalization. According to Pimenta (2007), globalization is capitalism that acts brutally, without the need for compromises that the existence of socialism imposed on it. In short, globalization is a phase of imperialism. Imperialism in the age of globalization is a predator without adversaries (socialism, national liberation struggles). It uses the market to reign and its ideology is liberalism or neoliberalism. Free market rules are imposed by the countries of the centre to peripheral countries, but the former are often the first ones not to comply with these rules.

It should be said that the free market versus welfare state dichotomy has to be overcome. Because of the persistence of this dichotomy and the predominance of free market policy, Pimenta's (2007) studies revealed that the future of the African economy showed a bleak picture and that the Millennium Development Goals might not be reached. In fact, the objectives set for 2015 were not be achieved and that is what always happen when the West devises development strategies for underdeveloped countries because the major problems of those countries are not considered. Therefore, a new paradigm of development is posited: no more international dependence, but political, social and economic autonomy, which passes through the creation of an emancipatory space of the citizen (Nipassa, 2009).

#### **4. Sustainable Development Strategy in SADC and Mozambique**

The Southern African Development Community was established in August 1991 in Windhoek (Namibia), from the previous Southern African Development Conference Co-ordination. The focus of the renewed coalition is essentially to increase the economic growth, poverty reduction and better life conditions creation for people (SADC, 2012)

One of SADC's projects is the common electricity market, the Southern African power Pool (SAPP). This organization was elected responsible for cooperation among the countries of the Southern African Development Community (SADC) for the development of the electricity sector and its market. The organization was created on 28<sup>th</sup> August 1995 in order to provide enough and a high quality electricity at low cost to the regional costumers (SAPP, 1997). The project aims to mobilize efforts to operationalize the common electricity market. It aims to explore the energetic potential of the region, held by each of the member countries, providing a complementarity between them, allowing the production of quality electric energy for customers and sharing measures to mitigate environmental problems.

The SAPP understands that in order to ensure a reliable, adequate and affordable energy supply, it must continue to strengthen its energy business, as it is aware that individual countries are unlikely to be able to impact international trade. It also expects that with regional integration it will be able to compete with the world's major economic consortiums (SAPP, 1997).

Taking into account the above views, the SAPP outlined the following objectives:

- provide a forum for the development of a robust, secure, efficient, reliable and stable world-class interconnected electrical system in the Southern African region;
- coordinate and apply common regional standards of supply quality, measurement and monitoring of system performance;
- harmonize relations between service members;
- facilitate the development of regional knowledge through training and research programs;
- increase the accessibility of energy in rural communities;

- implement strategies to support sustainable development priorities (SAPP, 2018).

The SAPP member countries comprise the twelve countries of Southern Africa, namely: South Africa, Angola, Botswana, Congo Democratic, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Tanzania, Zambia and Zimbabwe. The participation of these countries is done through the institutions or economic agents that operate in each of these countries. It should be noted that not all member countries are operational, because they have not yet subscribed the memorandum. The operational members are: South Africa, Botswana, Congo Democratic, Lesotho, Mozambique, Namibia, Swaziland, Zambia and Zimbabwe.

At the operational level of the SAPP Office there are several sub-committees: the Environmental sub-committee, the Markets sub-committee, the Coordination Centre Board, the Operation sub-committee and the Planning sub-committee. The SAPP's operating structure, principles, and organizational objectives do not address the problem of social development, although SADC's primary goal is to create conditions for development and poverty reduction in the Southern African Community. In other words, the design of economic projects in the region does not take into account social development. It seems that the concept of sustainable development is assumed to be limited to environmental development. This omission leads to understanding that SAPP operates simply as a market for purely commercial purposes. The free market strategy is the one used in the region. This is probably why there is economic growth but the people remain poor.

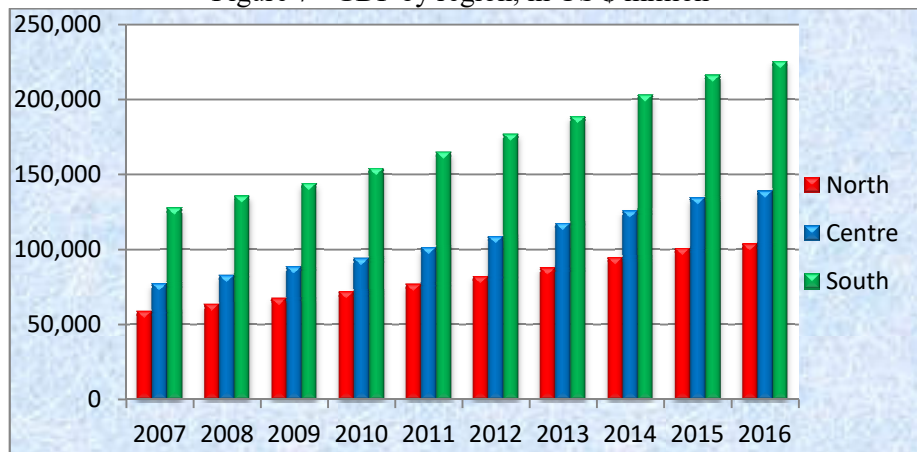
In fact, the results of the Central State Plan (PEC) implemented in 1997 in Mozambique using external savings resulted in plausible economic growth, which led to the elaboration of the Indicative Prospective Plan (Plano Prospectivo Indicativo - PPI) in 1979 to eliminate underdevelopment in 10 years (1980-1990). However, this project had no footing, due to scarce resources, intensification of civil war and drought (Geque, 2017; Hanlon, 1997; Mosca, 2005).

The combination of poor management of revenues centrally collected by the Mozambican State and its distribution with little attention to the socioeconomic characteristics of the regions and the peculiar demands of the region leads to regional asymmetries in development. In fact, the regional distribution of income in Mozambique is asymmetric. There is a greater concentration of income in the capital of the country and the province of Maputo, whose GDP per capita is five times greater than almost all provinces, with the exception of Sofala province whose GDP is just over US \$ 1000. In fact, the fourth poverty assessment in Mozambique showed that "the poverty outcomes of consumption point to a substantial reduction in poverty levels over the period 1990-2015. The reduction was more pronounced for urban areas and for the South, and high poverty levels remain in the provinces of Niassa, Nampula and Zambézia" (Ministério de Economia e Finanças, 2016, p.1). the figure 7 shows GDP by region, from 2007 to 2016<sup>16</sup> where the trend is graphically visible.

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<sup>16</sup> Data are presented since 2007 due to the unavailability of data from previous years at INE.

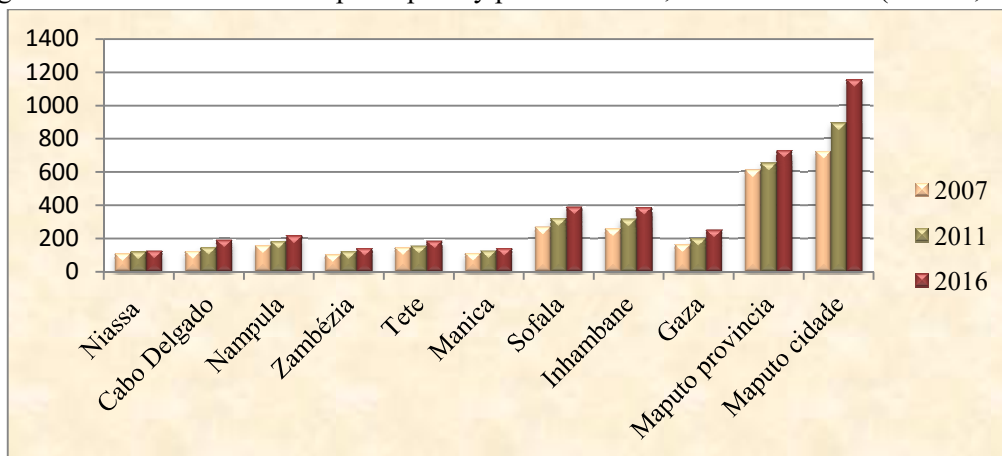
Figure 7 - GDP by region, in US \$ million<sup>17</sup>



Source: prepared by the authors based on Instituto Nacional de Estatística, 2018 data.

The trend of the distribution of GDP per capita follows the same of the aforementioned GDP, as shown in figure 8.

Figure 8 - distribution of GDP per capita by province 2007, 2011 and 2016<sup>18</sup> (million, US\$)



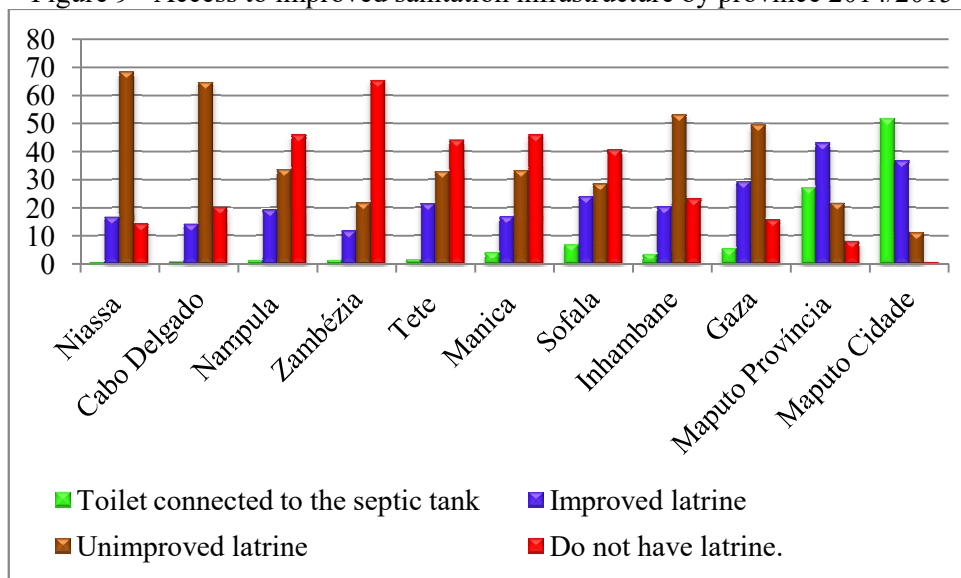
Source: prepared by the authors based on Instituto Nacional de Estatística, 2018 data.

Provincial governments are unable to develop public infrastructures that benefit the local population, such as sanitation, which is also concentrated in the capital of the country and in the Maputo Province, where the capital is located, as shown in figure 9.

<sup>17</sup> At constant prices and exchange rates of 31 January 2018.

<sup>18</sup>

Figure 9 - Access to improved sanitation infrastructure by province 2014/2015



Source: prepared by the authors based on Instituto Nacional de Estatística, 2015.

So, the uselessness of market based development strategy should be known and assumed as a fact by all SADC countries. They should understand that the poverty in the region will no longer decrease while maintaining the same development strategy that apparently does not work. As we have seen above, the SADC region has economic growth but the HDI remains low. To shift this scenario they should find alternative ways for both economic and social development. In addition, they should strengthen the public policies for social development. Indeed, as Wood (Wood, 1991, p. 697) observes "business men are not responsible for solving social problems. However, they are responsible for helping to solve problems and social issues related to their business, operations and interests". In the case of SAPP, SADC could introduce regulatory mechanisms for the commercialization of electric energy that would contribute to the regional development of territorial units that host energy infrastructures, in general and electric, in particular, so that this sector contributes to the social development. This change would cost SAPP about US\$ 111,984<sup>19</sup> for the sub-committee on social development, plus the percentage of income that could be set for that purpose.

On the other hand, domestic measures can be taken by member countries, as Mozambique. To do so, a percentage of the electrical companies income could be stipulated for social development purposes, allowing for the distribution of revenues collected from electrical infrastructures. In addition, regulatory adjustments should be done to accommodate the idea of balanced national development, stipulated by the n° 1 of the article 128 of the Mozambican constitution: "The Social Economic Plan aims at guiding economic and social development towards sustainable growth, reducing regional imbalances and eliminating economic and social differences between the city and the countryside progressively". Thus part of the revenues obtained from megaprojects would be transferred to the local governments, for the development of the regions that host them.

Nevertheless the electric sector of Mozambique is based on market policy economy. It emphasises that "the State and its institutions and other legal persons governed by public law

At constant prices and exchange rates of 31 January 2018.

perform a determinant roll, and the private sector plays an important role in the development of the national electricity grid” as determined by law (Lei n° 21/97 de 1 de Outubro) (Governo de Moçambique, 1997). In the same way, the role of the State is assumed to be that “the State ensures the participation of the private sector in the public electricity supply service through concessions that guarantee the right to use and exploit the energy potential while safeguarding the interests of the State” as determined by law (Inciso 2 do Artigo 4 da Lei 21/97 de 1 de Outubro) (Governo de Moçambique, 1997). Furthermore, the electricity policy doesn’t include taxes for social development for the regions where the electric infrastructures are installed. The taxes determined by law are related to concession and indenisations recommended by land law (art. 27 and 29 of the Lei n° 21/97 de 1 de Outubro).

From this brief analysis of the policy of the Mozambican electricity sector, we concluded that it is structured and based on principles of a free market economy, and that it has no tax bases that can lead the sector to contribute to social development. For this reason, the State should intervene in the economy to close the gap between economic growth and social development.

With these data, it is easy to conclude that in Mozambique, as well as in SADC in general, policy-makers do not consider how to induce social development when designing the development policies of the electricity sector. Social development in SADC is possible if member states design public policies aimed at social development.

## **5. Conclusion**

From the analysis of macroeconomic data of the SADC region, it was seen that there is a significant economic growth, but the HDI remains low. The same situation was found in Mozambique. This phenomenon was partially attributed to the development strategy used in the region, based on the free market model, proposed by the counter-revolution of free market theory. This development strategy is mandatory to get donations. The free market model of development was also identified while analyzing the SADC project of SAPP, which contributes to economic growth. The SAPP is oriented to the electrical market and it does not have a social development goal. The sustainable development referred to in the SAPP memorandum is about environmental development only. This can explain why the region has significant economic growth but the HDI is low. In the same way, the Mozambican experience showed that the absence of a public policy to promote social development leads to social degradation, and this can be the reason why its HDI is lower of the region and why there are regional asymmetries and inequality. This fact enhances the need for designing public policies for economic and social development in the region: the adoption of developmental state policy by import substitution and the creation of a social development sub-committee to coordinate social development in the SADC region. At the domestic level, we propose solutions of income distribution to local governments to attend the local demand.

As a form of solving this colossal problem, African countries should shift from the free market strategy to a developmental State strategy where the State and the private sector interact finding the best ways to generate income. The development of the industrial sector was identified as critical for economic development, in a context of import substitution. Furthermore, the meritocratic weberian form of recruitment was highlighted as fundamental to well functioning of the institutions for development.

Two potential pitfalls of the process were mentioned in this paper: the risk of capture of government by the private sector and ignorance of the previous local experience in the process of development. African countries should be aware of those pitfalls to avoid problems in the implementation of a developmental State policy.

## Compliance with Ethical Standards

### Conflict of interests

The authors declare that they have no conflict of interest.

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