MOZAMBIQUE 150

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News reports & clippings no. 150 from Joseph Hanlon
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Mozambique 151 - agriculture
Mozambique Political Process Bulletin Local Election Issue 30 – will be published as soon as the Constitutional Council rules on the 11 February 2009 second round election in Nacala
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PEER REVIEW ATTACKS DEVELOPMENT MODEL FOR WIDENING RICH-POOR GAP

Mozambique's development model is creating a wide moat separating the rich from the poor and this can generate serious conflicts, warns the African Peer Review Mechanism (MARP) Forum in its self-evaluation report, published in February. The consumer society is creating serious frustrations in the group that is excluded, which could lead to social convulsions in the medium term. The population is already taking justice into its own hands because it no longer trusts state institutions.

This is a very strong statement from a very establishment body. The MARP Forum is a joint government-civil society body of 58 people, including three governors, the governor of the Bank of Mozambique, representatives of eight parliamentary commissions, civil society, the private sector, and members of the Agenda 2025 commission. The Forum president is Lourenço do Rosario, rector of Universidade Politécnica.

The report makes several statements which go against current government policy:
+ The principle beneficiaries of growth have been a tiny group and "the most credible indicators show an increase in absolute terms in the number of people below the minimum subsistence line", thus rejecting government and donor claims of dramatic reductions in poverty.
+ It calls for the creation of a development bank.
+ Recognising the Mozambique has electricity from the Cahora Bassa dam, it calls for electricity prices to be reduced for the productive sector.
+ Because of the bias to the social sector, only 3.5% of the state budget is allocated to agriculture and rural development. This should be increased to the 10% recommended by various African summits and Nepad.

The report is surprising because of the way this group of very respected people criticises development policy. "Mozambique's present development model, based on free individual initiative and the principles of a economic liberalism", is seen as creating unemployment and leaving many family with not even enough to survive, especially in urban areas. This is polarising society, and creating "serious risks" of conflict. In a survey, half of respondents say unemployment as the most serious threat to peace, stability and security. The report repeatedly uses the word "fosso", meaning a constructed moat or ditch, to describe the widening gap between rich and poor.

The report also warns that "corruption is growing because of impunity".

MARP is the Mecanismo African de Revisão de Pares, the African Union/Nepad Peer Review Mechanism, under which a team of eminent persons evaluates the performance of member states on a range of issues. An early step is this self-evaluation study, available on
http://www.marp.org.mz/downloads/marp_tomo1.pdf
(Quotes and citations from pages 50, 55, 62, 64, 80-82)

CFM HEADS SAYS:
CRISIS SHOWS BWIs
PUSHED BAD POLICIES

The world economic crisis reflects just how wrong were the policies pushed by the Bretton Woods institutions, ports and railways company (CFM) president Rui Fonseca told the company's annual meeting on 19 March. They told Mozambique that markets would regulate themselves and that governments were the problem, not the solution. Now the government and its institutions have to overcome the crisis

Those who had rammed unsuitable remedies down the throat of the public sector need to reconsider. "Let those who were the apostles of the misfortune and destruction of the rail and port sector at least make an honest reflection about the positions they took over the years", he said. The World Bank and other international credit agencies should "support governments and the public sector, so that they in turn can stimulate the development of the private sector".

NO SEEDS --
MARKET OPPORTUNITY

Not everyone takes Fonseca's line. Nampula governor Felismino Tocoli admitted to surprise at the total lack of basic seed and cassava stalks in the province. He said it was a failure of the private sector to multiply and distribute seed, and that they should see the lack of seed as a market opportunity. Tocoli did point to the success of a state agency, the cashew institute Incaju, in producing cashew tree seedlings. But he then pointed to the "negligence" of the private sector in failing to distribute them. (Noticias 25 March)

OR WORLD BANK FAILURE?

Another failed World Bank policy is being reversed. Under pressure, Mozambique's relatively successful seed multiplication and distribution system was privatised -- and collapsed. The state company Semoc (Sementes de Moçambique) was part privatised. Now the government is putting $10 million into rebuilding Semoc and creating seed quality control laboratories. (Noticias 27 March)

LOOSENING IMF CAP
ALLOWS MORE
TEACHERS

Mozambique will hire 12,000 more teachers and 1,500 more health workers this year. This is a direct result of the IMF being forced to lift its salary cap in 2006. Before that, civil service wages were limited to between 6% and 6.5% of GDP. The new teachers and nurses, plus wage increases, will push the wage bill up to 8.4% of GDP. These details are including in the Mozambique government's October 2008 "Letter of Intent" to the IMF, published by the IMF on 10

February as part of its release of documents for the "Third Review Under the Policy Support Instrument". http://www.imf.org/external/pubs/ft/scr/2009/cr0949.pdf

The government has also shifted to stimulating demand. Instead of taking money out of the economy by selling bonds, it is instead sell more foreign exchange. This also absorbs meticias, but instead of freezing the money, it will used to increase imports and stimulate economic growth.

The government admits it does not know what is going on with mega-projects. Ministry of Finance "has started to compile and consolidate data on mega-projects" and the National Statistics Institute has been given the right to collect more data from mega-proejcts.

Also revealed in the letter of intent:
+ Aid will be 18% of GDP in 2009.
+ Domestic revenue will rise from 15.8% of GDP in 2008 to 16.9% of GDP in 2009. Half of the extra will come from the re-imposition of higher fuel taxes.
+ Government will formally submit an application to join EITI (extractive industries transparency initiative) by June 2009; the whole process of joining will take three years.
+ VAT rebate arrears, particularly on large infrastructure projects, are 1.2 bn MT, nearly $50 mn.

GLOBAL CRISIS HITS MOÇAMBIQUE

The global crisis is hitting Mozambique. Prime Minister Luisa Diogo has lowered this year's growth forecast to 6%, with inflation projected at 8%. She noted that aluminium prices had been halved and that the number of international passengers passing through Maputo airport had fallen by 25%.

Dividends from state shares in companies fell from $23 million in 2007 to $18 million last year, mainly due to the collapse in earnings of the Mozal aluminium smelter, according to Daniel Tembe, president of IGEPE, the unit that manages state holdings. But he noted this is still much higher than the 2002 level of $165,000. Mozambique holds shared in 135 companies. Ten of these are profitable, including Cervejas de Moçambique, MCel, Millennium BIM, and Coca Cola; another 37 are running acceptably but not profitable, 52 are functioning but deficiently, and 36 are closed.

In a speech to the economists association AMECON, 23 March, Diogo said that in confronting the crisis, the government had four challenges:
+ Strengthening banking supervision.
+ Maintaining aid flows.
+ Continuing to attract foreign investment.
+ Maintain a permanent dialogue with exporting companies.

But for Prakash Ratilal in an article in Savana (20 March) called for putting much more emphasis on domestic investment to increase production and productivity and create jobs. As Mozambique's debt is relatively low, Mozambique should borrow from the World Bank and African Development Bank and relend the money through a new Mozambique development bank.

Meanwhile, the IMF has twice cut Mozambique's growth projections. In Spring 2008 it estimated Mozambique's GDP would grow by 7% a year in both 2008 and 2009. In February in its "third review" (referred to above), it cuts its forecasts to 6.5% and 6.2%. But less than a month later, in its most recent report it cuts those predictions to 6.2% for 2008 and only 5.5% for 2009. The IMF also scores Mozambique as having a "high risk" of reductions in aid. And the report warns of potential problems because more than 75% of Mozambique's banking assets are controlled by foreign companies -- high by African standards. The danger, the IMF says, is that subsidiaries will sell profitable loans and shift deposits f to headquarters. ("The Implications of the Global Financial Crisis for Low-Income Countries", 3 March 2009.
http://www.imf.org/external/pubs/ft/books/2009/globalfin/globalfin.pdf)