MOZAMBIQUE 180
News reports & clippings
2 July 2011

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NOTE OF EXPLANATION:
This mailing list is used to distribute two publications, both edited by Joseph Hanlon. This is my own sporadic "News reports & clippings", which is entirely my own responsibility. This list is also used to distribute the *Mozambique Political Process Bulletin*, published by CIP and AWEPA, but those organisations are not linked to "News reports & clippings" Joseph Hanlon

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Attached file: This newsletter in pdf.

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In this issue:

IMF challenges government
- **Mozambique not pro-poor**
- **Renegotiate mega-projects**
- **More cash transfers**

Food basket cancelled

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IMF says Mozambique not pro-poor

and confronts government on social protection and re-negotiating mega-projects

Mozambique's "economic growth has not been as pro-poor as in other countries with comparable high and sustainable growth episodes. It has also become less pro-poor over time," declares the IMF in its staff report published on 27 June (but dated 24 May).

The report and the IMF Executive Board also confront the government on two hot issues. They say that Mozambique should renegotiate the existing megaprojects to increase revenue and should increase social protection measures to reduce inequality, both of which the government has repeatedly opposed.

The report is available on www.imf.org/external/pubs/ft/scr/2011/cr11149.pdf
The Executive Board statement is on www.imf.org/external/np/sec/pr/2011/pr11240.htm

A study included in the staff report (pages 55-61) says that in Mozambique "poverty reduction did not reach the magnitude observed in other high-growth countries", and cites the "sharp contrasts" with China, Vietnam, Brazil "and even Uganda". Expenditure of declining for the bottom 30% of the population - the poorest are getting poorer.

Mozambique could earn 5x more from mega-projects

IMF "staff estimates that total taxes paid by companies in the mega-project and mining sector account for about 5% of their profits. If the 2007 fiscal regime was fully applied, companies in this sector would be subject to royalty and income taxes and expected to pay an average of at least 30% of their profits", the IMF staff report says.

The IMF Executive Board called for "new revenue sources [to be] tapped, including in particular from the natural resources sector". The staff reports cites "the need to have mega-projects provide a fair contirbution to the country's development."

The IMF mission to Mozambique in March "pointed to experience from elsewhere (eg Peru, Tanzania) which suggested aiming for an amicable agreement with existing investors by trying to convince them that social peace and economic development in the country were in their interest as well."

But government continues to refuse to renegotiate. In the government's 20 May "letter of Intent" to the IMF, Finance Minister Manuel Chang and Bank of Mozambique Governor Ernesto Gove only said that "government will carefully analyse the perspectives for potential renegotiation of fiscal benefits in the natural resources sector".
[jh comment: "analyse the perspectives for potential" is 3 steps away from any action.]

A new law on private-public partnerships, large scale projects and business concessions passed by parliament in May says that "renegotiation of contractual clauses is permitted" in order to share benefits more equitably. Chang told parliament that three mega-projects in production (the Mozal aluminium smelter, Sasol natural gas, and Kenmare titanium at Moma) benefit from a wide range of incentives, but that new projects including the coal mines in Tete come under the 2007 law.

But an opposition amendment to strengthen the law by saying "the government shall take the initiative to renegotiate the contracts” was defeated by the Frelimo majority. Speaking for the government, Frelimo MP Danilu Ragu said government could not decide to renegotiate contracts unilaterally “because this will scare off investments”.

Even the Catholic Church has joined the debate. According to *Savana*, the Catholic bishops in a pastoral letter on 20 June said that the mega-projects received "excessive" fiscal benefits, while

Mozambicans only suffered negative impacts. It is only the owners of the mega-projects who are benefitting, not the people of Mozambique, the letter says.

IMF says target inequality with cash transfers

The IMF staff reports warns that "as income inequality rises, so does the risk of social conflict -- as recent events in the Middle East provide a topical reminder of. One way of accelerating poverty reduction and mitigating the effect of increasing inequality is through the introduction of a targeted social safety net, such as conditional cash transfer schemes, such as Bolsa Familia in Brazil, or public works programs, such as those in India and Ethiopia. These programs have relatively low fiscal cost and have been shown to positively affect labor productivity."

The IMF Executive Board said the government "should move forward in expanding well-targeted and affordable social protection systems".

But President Armando Guebuza made clear his disagreement in a speech in Campa, Mopeia, Zambezia on 13 May when he said "pensions, however high they may be, are not going to solve the problem of poverty". Speaking at a rally in Chicutso, Magude, Maputo province on 18 April he likened requests for cash transfers to begging. "We can't build wealth by begging". In his recent tours of the provinces as part of his "open and inclusive presidency", Guebuza has been stressing the need for peasants, and especially women and young people, to work harder. Guebuza attacked those who spread rumours and intrigues to justify their failure to do any work. "While others are working, the lazy are asleep", he said. "But when harvest time comes, they begin to launch intrigues and try to denigrate those who work, calling them witches".

Mozambique has a small cash transfer programme, the Programa Subsidio de Alimentos (PSA, Food Subsidy Programme -- actually a cash payment and not a subsidy), which now goes to 220,000 people, mainly poor elderly women. The IMF wants this scaled up substantially. Other countries in the region have larger programmes: South Africa has a child benefit that goes to 55% of children under 18 and a social pension that goes to nearly all people over 60; Namibia, Lesotho, Botswana and several other countries also have social pensions going to nearly all older people.

The fuel subsidy is to be ended, and "Mozambique should seize this momentum to become a 'front runner' in sustainable social proteciton in Sub-Saharan Africa", the Fund staff report says.

But speaking in Iapala, Ribaue, Nampula, on 1 June the President implicitly rejected this, calling for children to take care of their parents. "We should respect them, just as they looked after us when we were children", he urged. "When we show a lack of respect for the elderly, we are teaching the younger generation not to respect us when we grow old". He noted that increasingly the elderly were labelled as witches. "How is it possible that the person who gave birth to us, who brought us up with loving care, who sent us to school to be what we are today – how can this person suddenly become a witch?".

But Mozambique is being seen as increasingly isolated in its resistance to using cash transfers to promote development and equality. Even the World Bank supports the idea. In a posting on the Guardian Poverty Matters blog on 29 June, Shantayanan Devarajan, Bank chief economist for Africa, and Marcelo Giugale, Bank director for economic policy and poverty reduction

programmes, write that "transferring a portion – or all – of the income from Africa's natural resources directly to citizens could help to reduce poverty and fight corruption".
http://www.guardian.co.uk/global-development/poverty-matters/2011/jun/29/africa-extracting-benefits-from-natural-resources

They note that "35 African countries already transfer cash directly to their poor -- through smartcards, debit cards, mobile phones, or in person." They argue that mineral dividends paid this way lead citizens to hold government to account, because they want the best management or resources that are giving them money, and create national unity because everyone everywhere gets an equal share.

Finally, they say: "Optimally, one would means-test the dividend transfers, i.e. one would give more to those who are poorer. But that could be an insurmountable political and practical road-block. A uniform and universal transfer – the same amount to every citizen – would still be progressive, because it will help the poor more than the rich."

Diversification & job creation to avoid more unrest

Mozambique should put more emphasis on economic diversification, the IMF says. "The stagnation in income poverty reduction and the September 2010 unrest are clear warning signals that Mozambique's traditional growth model needs to be complemented by well-targeted efforts to broaden the country's productive and export base and create employment opportunities."

Mozambique needs to "diversify its economy away from capital-intensive, low-valued added products" and should "increase production and productivity in labor-intensive sectors, particularly in agriculture."

In a total reversal of past World Bank and IMF agriculture policy, the staff reports calls for "subsidized credit in the form of credit guarantees" and "the provision of public goods such as basic research, infrastructure, and agricultural extension services".

Other IMF points

+ "Fighting inflation should be the key priority" says the IMF Board. But the staff report warns that tightening money supply to curb inflation will be at "the cost of a temporary slowdown of credit expansion which could stifle private sector activity."

+ "Against a backdrop of stagnant poverty reduction and street riots last year, the authorities aim to adjust their growth strategy to make it more inclusive" and emphasize employment opportunities.

+ Inflation in 2010 was 12.8% and real GDP growth was 6.6%.

+ 2010 saw "remarkably strong revenue collections", with government revenue increasing by 2.2% of GDP. But the fuel subsidy cost 1.5% of GDP, eating up most of the gain.

+ By end-July 2011 government is committed to submitting to parliament new anti-corruption and conflict of interest laws.

+ The Metical has depreciated in real effective terms by 33% since its peak in November 2008, and this is now the correct exchange rate.

Food basket announced, then cancelled

In the government panic after the 1-2 September 2010 demonstrations in Maputo, a new subsidy on wheat flour (and thus bread) was announced and fuel subsidies were extended. But it became clear that the subsidies could not be afforded, and tended to benefit the better off rather than the poor. In late March the government announced the wheat subsidies would be ended and fuel subsidies phased out.

In their place, government said it would introduce in June a subsidised food basket for poorer families, similar to the ration that existed for all Maputo residents in the 1980s, and a subsidised bus pass will be available from August for workers, students and the elderly. Various ministers made announcements, and on 12 April the Council of Ministers approved revised criteria.

The basic food basket (*cesta basica*) was to include maize flour, rice, fish, beans, peanuts, oil and bread. It was to be for people earning less than 2500 meticais ($88) per month. The basket would cost 824 meticais per month, later increased to 840 ($30). The amended state budget submitted to parliament in May, included 336 million meticais ($12 mn) for the subsidy for this year.

But donors became worried about the cost and practicality. The IMF mission to Mozambique in March "expressed concern about the targeting, implementation constraints and the potential administrative costs" of both the food basket and bus passes. But both remained government policy when the IMF staff report was finalised in May.

Then the daily *O Pais* reported on 16 June that Prime Minister Aires Ali, speaking the previous day in Nampula, denied that the government had ever promised a food basket and said there was no need for it. The newspaper also said it had an internal government report dated 7 June which should that the subsidy would cost 538 mn meticais ($18 mn) plus an administration cost of 202 mn mt ($7 mn) for six months, much higher than current subsidies.

Government sources confirm the food basket is dead. Some in government say it was only introduced as a concession to donors and dropped when donor pressure fell off after the end of budget support group meetings. Others point to the higher than expected cost and IMF objections.

Amazon.com for $27.95
Amazon.co.uk for £17.09

Just Give Money to the Poor: The Development Revolution from the Global South

by Joseph Hanlon, Armando Barrientos, and David Hulme
Most of this book can now be **read on the web**
http://tinyurl.com/justgivemoney
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Two working papers on the web

Poverty is not being reduced in Mozambique

LSE Crisis States Research Centre Working Paper No. 74 (series 2)
Benedito Cunguara and Joseph Hanlon, June 2010 t
http://www.crisisstates.com/download/wp/wpSeries2/WP74.2.pdf
Tambem em Portugues:
http://www.crisisstates.com/download/wp/wpSeries2/WP74.2portuguese.pdf

Mozambique's Elite – Finding its Way in a Globalized World and Returning to Old Development Models

Joseph Hanlon and Marcelo Mosse September 2010
WP/105 UNU-WIDER: The Role of Elites in Economic Development project
http://www.wider.unu.edu/publications/working-papers/2010/en_GB/wp2010-105/

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AIM Reports: www.poptel.org.uk/mozambique-news
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