

# MOZAMBIQUE News reports & clippings

349 15 December 2016 Editor: Joseph Hanlon ( [j.hanlon@open.ac.uk](mailto:j.hanlon@open.ac.uk) )

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**Following the donor-designed path to the \$2.2 billion secret debt** <http://bit.ly/3WQ-Hanlon>

**Special report on four poverty surveys:** [bit.ly/MozPoverty](http://bit.ly/MozPoverty)

**Comment: something will turn up:** <http://bit.ly/28SN7QP>

**Oxfam blog on Bill Gates & chickens:**

<http://oxfamblogs.org/fp2p/will-bill-gates-chickens-end-african-poverty/>

**Chickens and beer: A recipe for agricultural growth in Mozambique**

by Teresa Smart and Joseph Hanlon is on <http://bit.ly/chickens-beer>

**Gas for development or just for money?** is on <http://bit.ly/MozGasEn>

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## **Also in this issue:**

**No IMF programme soon**

**World Bank: inflation hits poor**

**Lenders should have known better**

**Victory in the 20 year cashew war**

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## **BoM predicts inflation of 27% or 30%; reserves up, devaluation halted**

Annual inflation is expected to hit 30% by the end of the year, the Bank of Mozambique Monetary Policy Committee said in a statement issued Wednesday 14 December. <http://www.bancomoc.mz/>  
But the governor of the Bank of Mozambique, Rogerio Zandamela, told a Wednesday press conference that although annual inflation in November had risen to 26.8%, he expected inflation at the end of the year to be only 27%. (AIM En 14 Dec) Standard Bank (13 Dec) predicts 25%.

Zandamela and the IMF at the end of its mission this week (see below) both said that the drain on Mozambique's net foreign reserves has been reversed. Despite reduced foreign direct investment flows and cuts in donor financing, the rapid devaluation combined with the failure to pay debt service and the sharp squeeze on access to foreign currency have increased foreign currency reserves. Also since November the commercial banks have sold \$174 million to the central bank. The World Bank, in a report issued this week (see below), said that imports of goods this year will be 33% lower than in 2015. Foreign currency reserves are measured both in US dollars and in the number of months of imports they will cover, which will have increased because monthly imports are falling.

According to Zandamela, and IMF and World Bank reports published this week, reserves stood at \$1.99 billion dollars at the end of 2015, equivalent to 3.2 months of imports (excluding megaprojects), but had fallen to \$1.68 bn in October (2.9 months of imports). This has now risen to \$1.75 bn, enough to cover 3.5 months of imports.

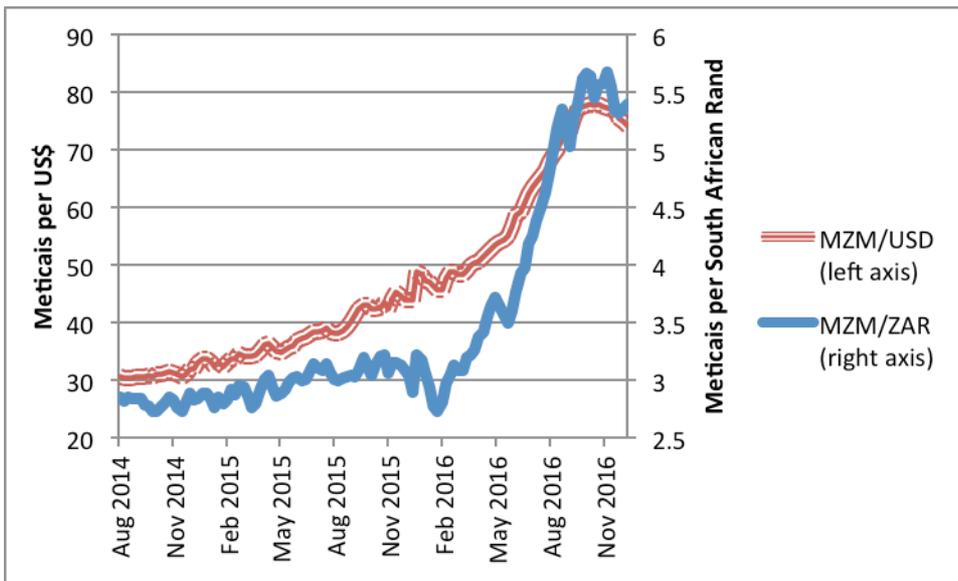
The Bank of Mozambique Monetary Policy Committee yesterday decided to make no changes to interest rates or reserve requirements, noting particularly that the exchange rate has stabilised. After a year of rapid devaluation, the value of the Metical has been stable and actually improved

slightly since mid-October.

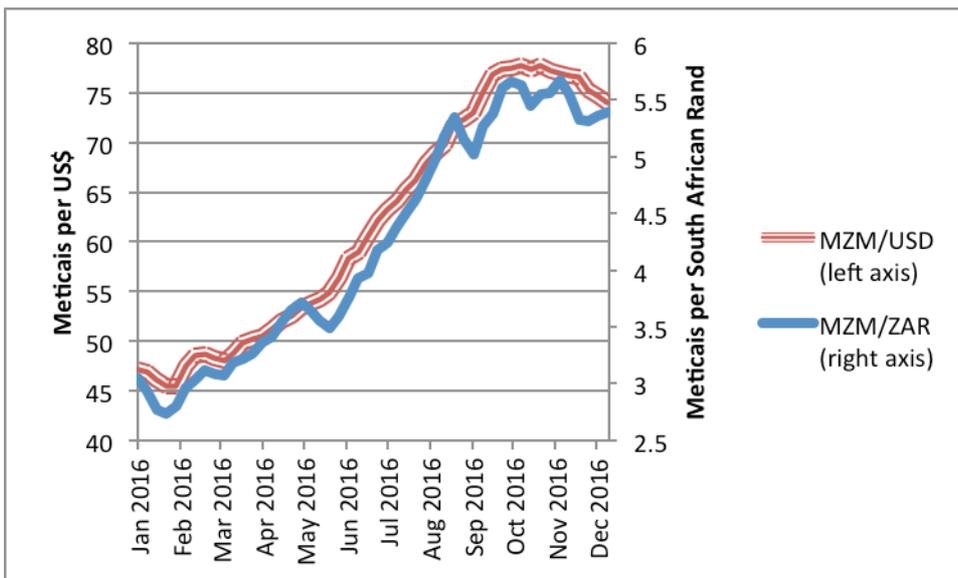
Zandamela said that the sharp interest rate rises of October were having the desired effect of mopping up excess liquidity and halting the depreciation of the Metical. However, last year when there were comments about the Metical being badly overvalued, numbers being cited as the correct exchange rate were close to the current values.

At the beginning of this year the exchange rate was MT 47 = \$1. By mid-October it had gone to MT 78 = \$1, and has fallen slightly to MT 74 = \$1 now. Similarly the rate to the South African Rand was MT 3 = 1 Rand, went to MT 5.6 = 1 Rand in October, and has dropped slightly to MT 5.4 = 1 Rand now. Standard Bank (13 Dec) predicts a fall to MT 65 = \$1.

### Past 2½ years



### Past year



## No IMF programme soon; more cuts demanded

There will be no new IMF programme soon. This was made clear by Michael Lazare, the head of the IMF 1-12 December mission to Maputo, in a statement Tuesday, which stressed that the team had only "initiated discussions on a new economic program that could be supported by the IMF." The audit of the secret debt is a start, but the IMF is demanding "strong governance reforms" and "further fiscal consolidation" as a condition for the next round of talks.

<https://www.imf.org/en/News/Articles/2016/12/13/PR16555-Mozambique-IMF-Staff-Team-Concludes-Visit>

Lazare said the IMF wants: "containing the expansion of the wage bill", reducing price subsidies, "curtailing tax exemptions", increasing tax revenues, and controlling large public enterprises. However, "critical social programs" must be protected and the social safety net reinforced.

Because of the secret debt and the rapid devaluation, debt has "increased to distressed levels" and rescheduling must be agreed with creditors.

The mission predicted that GDP growth will be 3.4% in this year (2016) compared to 6.6% last year.

## World Bank: poor harder hit by inflation

Food accounts for 48% of the Consumer Price Index, but it is more than 70% of the expenditure of the poor. This year's rising inflation has particularly been due to food prices. Thus when official inflation exceeded 25% in September, it was actually 33% for the poor, according to the World Bank in its *Mozambique Economic Update: Facing Hard Choices*, published Monday.

<http://documents.worldbank.org/curated/en/334311481183208191/pdf/110817-REVISED-PUBLIC-Digital-MEU-2016.pdf>

The debt crisis forced the government to introduce a revised budget for this year, which cut spending on social and economic sectors by 4.7%. The report argues that the budget deficits have been rising for more than a decade, and that this must be reversed. High inflation makes the problem worse. This "implies nominal reductions in spending when expenditures are already falling in real terms." As with the IMF (above), the Bank want to "control wage bill growth". It notes that the government wage bill rose 140% between 2010 and 2014, and that non-wage "compensation adjustments" accounts for 73% of the increase. Indeed, the Bank says that "non-wage benefits" account for 60% of the average state employee's compensation.

Devaluation and a shortage of foreign currency is predicted to reduce imports this year by 33%, compared to 2015; vehicle imports will be down 50%.

The bank again highlights underperforming public corporations, pointing out that the airports (ADM), electricity (EDM) and petrol (Petro Moc) state companies are all losing money. Only the railways (CFM) and the hydrocarbons company (ENH) are profitable. Virtually all investment is paid for from loans, 70% foreign currency loans backed by government guarantees (which, with the devaluation, have now doubled in value and repayments) and 30% loans from government. The state has some control over the 13 formal public enterprises, but has no proper oversight over the 221 companies where the state has shareholdings or an indirect interest, for example as a subsidiary, the Bank report says.

## Fitch says tuna lenders should have known better

Lenders failed to appreciate the risks of lending to Mozambique's state-owned fishing company and bear part of the blame for the country's inability to repay the debt, said Federico Barriga Salazar, a director at Fitch Ratings, one of the Big Three credit rating agencies. In the case of Ematum, a two-page prospectus and a government guarantee of dubious legal force from one of the poorest countries in the world was enough to convince investors to advance \$750 million to a company with no track record, Salazar said. "There was investor exuberance in the market about Africa as the next frontier three years ago," Salazar told Bloomberg (12 Dec, <https://www.bloomberg.com/news/articles/2016-12-12/fitch-chides-bond-buyers-over-mozambique-firm-that-barely-exists>).

Investors were told the gas fields would enable government to repay the debt. But investors didn't exercise due diligence and overlooked the fact the gas revenues would not arrive in time to pay the debt, Salazar said.

Following the Parliamentary Commission report last week, the government is under growing pressure to renounce the guarantee. The Commission said the guarantees, signed by then Finance Minister Manuel Chang, were unconstitutional, as parliament must approve loan guarantees. Thus the loans are to private companies, MAM and Proindicus, without any guarantee. Chang admitted to the Commission that he agreed the guarantees without telling the Council of Ministers, the Bank of Mozambique, the Attorney General's office or the IMF. As Salazar from Fitch makes clear, any due diligence report would have shown the guarantee to be invalid and unconstitutional. Any case would be heard in a British court or by British arbitrators, who would give less weight to Mozambican law. But we are advised that a British court would take seriously a Mozambican claim that the guarantee could not be valid. It would be almost unprecedented, however, because a government would be in court to claim its own minister acted *ultra vires*, or beyond his power, and in a way that was so obvious that any lender must have known.

The World Bank report released this week points to the escalation of debt from 2012, under President Amando Guebuza. The debt to GDP ratio was a reasonable 40% in 2012 but had jumped to 73% by the end of 2015 (even without the secret debt), and the secret debt took it to 86%. Nearly all the debt is in foreign currency, so devaluation has taken the debt to 130% of GDP, which is clearly unsustainable. Average scheduled debt service payments in the next five years are \$233 mn per year, the Bank says.

The smaller opposition party MDM had only one member on the Parliamentary Commission, Venâncio Mondlane, and it has rejected the Commission report. Instead it has produced its own report, on [bit.ly/MDM-divida](http://bit.ly/MDM-divida). The report contains substantial new information. It reports that 69 boats have been purchased, of which 24 are fishing and the rest military. It appears that only 14 have been used; most of the rest are on land, not being used or maintained. MDM also says that in evidence to the Commission, Defence Minister Salvador Ntumuke confirmed an earlier *Africa Confidential* report that the three trimaran patrol boats were not being used because "they are not capable of being sailed on the high seas". Finally, MDM gives estimates to show that the boats were substantially overpriced. And it notes that of the \$2 billion in loans, \$1.5 bn remains unaccounted for.

Chr Michelsen Institute and the Anti-Corruption Resource Centre have published a report by Alex Eilliams and Jan Isaksen, "Corruption and state-backed debts in Mozambique: What can external actors do?"

<https://www.cmi.no/publications/file/6024-corruption-and-state-backed-debts-in-mozambique.pdf>

A study earlier this year by the Centro de Integridade Publica and the Chr. Michelsen Institute estimated the annual average cost of corruption to Mozambique during the period 2004-2014 was \$1.8 bn per year, or about 10% of GDP.

[http://cipmoz.org/images/Documentos/Sem\\_categoria/Policy\\_Brief\\_1\\_Eng.pdf](http://cipmoz.org/images/Documentos/Sem_categoria/Policy_Brief_1_Eng.pdf)

## **Declaring victory in the 20 year war with the World Bank over cashew**

In 1995, Phyllis Pomerantz, the World Bank's Washington-based country operations manager for Mozambique, sat at a table in the World Bank house in Maputo with government ministers, and forced them to close the cashew nut industry, throwing 10,000 people out of work. She made this a "necessary condition" of the Bank's country assistance strategy, a phrase apparently never used in any other country, which meant that if the government did not withdraw the protection for the industry, the Bank would stop all programmes. Because all donor support then was conditional on having a World Bank programme, that meant all aid would stop. Ministers felt they had no choice. It was a remarkable display of the power of one woman in the World Bank over an entire country.

Neoliberalism was in the ascendency at the time, and the World Bank and Pomerantz believed in the myth that the free market and globalization on their own would end poverty. The idea was that if unprocessed cashew was sent to India, peasants would earn more. It was a total failure; without the guaranteed domestic market, production collapsed. Not only did 10,000 people (mainly women) lose jobs in the factories, but peasants lost income from an important cash crop. The story became a global scandal. Perhaps because they did not want to lose face, the World Bank and some donors refused to back down.

After five years, the government began to work, literally in secret so the Bank and allied donors did not have to see, to rebuild the industry. New factories were opened, with support from government and friendly donors. Peasant farmers were helped with tree seedlings and spraying. Most important, government worked quietly with the cashew traders to reach agreement that there would be an export duty on unprocessed cashew, and that no unprocessed cashew would be exported until the demand of local factories was satisfied. This went totally against everything Pomerantz and the Bank had demanded. But it worked. Cashew returned as an important peasant crop in coastal areas, and the processing industry grew. By the time we wrote "Do Bicycles Equal Development in Mozambique?" in 2008, we could do a whole chapter on the revival of cashew. The State Secretariat for Cashew was willing to be more open about rebuilding the industry though state intervention and in opposition to World Bank demands, but it was still careful not to discuss protection openly.

Finally, last week, President Filipe Nyusi declared publicly that cashew and industrial protection were successes. The 20 year secret battle to reverse the imposition of Phyllis Pomerantz was finally over.

The imposition of a surtax on the export of raw, unprocessed cashew nuts has been a success in stimulating the growth of the cashew processing industry, declared President Nyusi on 9 December, as he inaugurated a new cashew processing factory in Nampula. This, Nyusi said, was an example of a policy to protect Mozambican industry bearing fruit. The 18-22% surtax on raw cashew exports ensures that, instead of all being exported (mostly to India), some nuts stay in Mozambique to feed the processing factories.

The new factory is the second to be opened by the Export Trading Group. It can process 2500 tonnes of raw nuts per year, exports 500 tonnes of cashew kernels, and employs 700 workers; there are plans to increase capacity to 10,000 tonnes per year. (AIM Pt 9 Dec)

## **LAM bribe - no interference**

There will be no government interference in the Attorney General's investigation into a bribe paid by the Brazilian aircraft company Embraer, Prime Minister Carlos Agostinho do Rosário told parliament yesterday (14 December) during questions to the government. The Brazilian government says that \$800,000 was paid to José Viegas, then head of the Mozambican airline

LAM, and an intermediary, Mateus Zimba, the director of Sasol in Mozambique. The money was paid to a Zimba company named Xihevele, which appropriately is the Shangana word for "steal a lot".

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"Mozambique News Reports & Clippings, number XXX", DATE, [bit.ly/mozamb](http://bit.ly/mozamb), accessed XXX.

**Previous newsletters and other Mozambique material** are posted on [bit.ly/mozamb](http://bit.ly/mozamb)

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**Election study collaboration:** We have detailed election data from 1999 through 2014 and are inviting scholars to use this data collaboratively. <http://bit.ly/MozElecData>

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## Books by Joseph Hanlon

### ***Bangladesh confronts climate change: Keeping our heads above water***

by Manoj Roy, Joseph Hanlon and David Hulme Published by Anthem Press

<http://www.anthempress.com/bangladesh-confronts-climate-change-pb>

***Chickens and beer: A recipe for agricultural growth in Mozambique*** by Teresa Smart and Joseph Hanlon

In pdf format, 6 Mb file, free on <http://bit.ly/chickens-beer>

E-book for Kindle and iPad, <http://www.amazon.com/dp/B00NRZXXKE>

### ***Galinhas e cerveja: uma receita para o crescimento***

by Teresa Smart & Joseph Hanlon. Copies are in Maputo bookshops or from

**KAPICUA**, Rua Fernão Veloso 12, Maputo; Tel.: +258 21 413 201 or +258 21 415 451

Telm.: +258 823 219 950 E-mail: [kapicudir@tdm.co.mz](mailto:kapicudir@tdm.co.mz) / [kapicuacom@tdm.co.mz](mailto:kapicuacom@tdm.co.mz)

Outside Mozambique, we have a few copies we can send from London. Please e-mail [j.hanlon@open.ac.uk](mailto:j.hanlon@open.ac.uk).

### ***Zimbabwe takes back its land***

by Joseph Hanlon, Jeanette Manjengwa & Teresa Smart is now available from the publishers

[https://www.rienner.com/title/Zimbabwe\\_Takes\\_Back\\_Its\\_Land](https://www.rienner.com/title/Zimbabwe_Takes_Back_Its_Land) also as an e-book and

<http://www.jacana.co.za/book-categories/current-affairs-a-history/zimbabwe-takes-back-it-s-land-detail>

***Do bicycles equal development in Mozambique?*** by Joseph Hanlon & Teresa Smart

is available from the publisher <http://www.boydellandbrewer.com/store/viewItem.asp?idProduct=13503>

### ***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** [tinyurl.com/justgivemoney](http://tinyurl.com/justgivemoney)

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NOTE OF EXPLANATION:

One 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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#### **Mozambique media websites, Portuguese:**

Notícias: [www.jornalnoticias.co.mz](http://www.jornalnoticias.co.mz)

O País: [www.opais.co.mz](http://www.opais.co.mz)

@Verdade: <http://www.verdade.co.mz>

Diario de Moçambique (Beira): <http://www.diariodemocambique.co.mz>

Carlos Serra Diário de um sociologo: <http://oficinadesociologia.blogspot.com>

#### **Mozambique media websites, English:**

Club of Mozambique: <http://clubofmozambique.com/>

Rhula weekly newsletter: <http://www.rhula.net/news-announcements.html>

Zitamar: <http://zitamar.com/>

Macauhub English: <http://www.macauhub.com.mo/en/>

AIM Reports: [www.poptel.org.uk/mozambique-news](http://www.poptel.org.uk/mozambique-news)

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