

MOZAMBIQUE News reports & clippings

308 2 January 2016

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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>

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>

Also in this issue, IMF reports on:

Inequality promotes instability

Aid and project cuts

Ematum, devaluation, inflation

Renamo secretary general shot

Renamo secretary general Manuel Bissopo was seriously injured and his bodyguard killed in a drive-by shooting in Beira yesterday, Wednesday 20 January. The shooting occurred in the central Beira neighbourhood of Ponta Gea, about 500 metres from the Sofala Provincial Police Command, and from the office of provincial governor Helena Taipo.

Bissopo was driving the car, with his bodyguard and two other Renamo members, when a car came up behind and two men fired AK47s. Bissopo was seriously wounded, hit in the arm, leg and abdomen and the car tyres were shot out, but he managed to drive to the Renamo office. From there he was taken to a private clinic and is now out of danger.

Bissopo is also a member of parliament and of the parliament's governing body, the Standing Commission. (O Pais, AIM En 21 Jan)

Meanwhile Renamo has accused the government of kidnapping and killing two Renamo members while government has accused Renamo of killing two people including a traditional chief, all in Gorongosa, Sofala.

IMF warns again: Inequality could cause 'political instability'

"In Mozambique, income inequality has increased despite high rates of economic growth," and "few countries offer such a stark contrast as Mozambique", warns the IMF in a report issued 14 January. "Benefits of growth have not been broadly shared," and "geographical inequality (with much higher income levels in the southern provinces) could also become a source of political tension given that most of the natural resource wealth is located in the northern provinces."

"High levels of inequality hamper government policies to reduce poverty", "make it difficult to

sustain growth", and "can lead to political instability" warns the paper by the IMF resident representative Alex Segura-Ubierno. It is part of a set of research reports released on 14 January. (IMF Country Report 16/10, <http://www.imf.org/external/pubs/ft/scr/2016/cr1610.pdf>)

"Political tension" and the "failure to find a permanent solution to the growing tension" between Frelimo and Renamo is seen as the highest risk, in the IMF staff report on Mozambique.

The staff report and the government's letter of intent are part of a second package of IMF documents released the next day, 15 January. (IMF Country Report 16/9, <http://www.imf.org/external/pubs/ft/scr/2016/cr1609.pdf>)

Aid falls sharply; \$2.2 bn in projects cut

Aid has fallen dramatically since the previous IMF report in August 2015. In the review, the government and IMF predicted that foreign aid grants for 2015 would be \$824 million, but the new documents say it turned out to be only \$615 mn, down \$209 mn (down 25%). Projections for future aid are also cut. In August the projection for grants in 2018 was \$566 mn, but it is now only \$420 mn.

Indeed, the IMF predicts massive and increasing cuts in externally funded spending. In August it projected externally funded spending from grants and loans of \$2448 mn in 2018, but this has been cut to \$1719 mn. The cut of \$729 mn is a huge 4% of GDP.

Government has suspended negotiations on \$2.2 billion in loans for infrastructure projects, the IMF reveals, and sent them back to ministries for reconsideration.

In 2016, total government expenditure will be 1.4% of GDP less than in 2015, of which 1.1% of GDP is a cut in current expenditure (reducing the civil service wage bill and ending fuel subsidies, due to the fall in oil prices) and 0.3% is a cut in externally funded capital expenditure. The reduction of the civil service wage bill will come from the "proof of life" statements now required for all civil servants, to stop the fraudulent paying of ghost workers, and "strict limits on new hiring in non priority sectors (i.e. excluding the health, education, agriculture and police sectors)."

As part of the new loan, the IMF has imposed a stringent set of conditions as a "strong policy package of corrective measures". These include "further fiscal adjustment, continued exchange rate flexibility, and tight liquidity management," as well as cutting spending, greater transparency in selecting public investment projects, and improved VAT management. Government has already promised more rigorous technical assessment of investment projects exceeding \$50 mn.

One aspect of fiscal adjustment is to cut the tax exemptions to large corporations, which were intended to attract investment, especially VAT import exemptions.

The IMF notes that "the pace of debt accumulation and the increase in public spending in recent years are not sustainable, also resulting from the poor quality of debt contracted and a lack of rigor in project selection criteria."

Ematum looms large

The \$850 million Ematum commercial bond issue in 2013 has combined with the dramatic fall in commodity prices and the devaluation of the Metical to cause chaos. Ematum bond repayments will be \$200 mn per year from this year, "effectively doubling public debt service", the IMF warns. This was largely responsible for the IMF concluding that the "risk of debt distress [is] moderate". Falling commodity prices reduce export earnings and tax revenue, while most of Mozambique's debt is denominated in dollars so devaluation increases debt service payments. Ematum is largely

responsible for Mozambique having to take an IMF loan and accept IMF conditions and major cuts in spending. And a condition of that loan is "continued exchange rate flexibility" which could mean further devaluation which would push US dollar debt repayments over the acceptable threshold.

Ematum looms large in many of the IMF documents. For example, the IMF makes the important point that "notably, there is no evidence of capital flight [because] domestic agents retained their savings in the country." But then a footnote hints that the Ematum bond issue was an exception.

\$350 mn of the loan remains with Ematum and a condition of the IMF loan is that government have a plan to improve profitability of the Ematum fishing company by the end of April 2016.

Under IMF and donor pressure, government took over \$500 mn of the debt, and has repeatedly refused to account for the money. It is now widely seen as a very costly retirement present for former President Armando Guebuza. The cartoon below is from *Savana* (1 Jan 2016) and headed "Ship of Fools", with Guebuza left and former finance minister Manuel Chang on the right, fishing is a sea of money.



Intervention, devaluation, inflation

The Bank of Mozambique "intervened heavily" in the foreign exchange market in late 2014 and early 2015 to try to prevent devaluation, spending \$700 mn which ate significantly into reserves. This intervention was stopped in April, but the IMF considered that this was too late and too much money was lost. "Import levels have become unsustainable and a more immediate policy reaction would have been preferable."

In April 2015 when intervention stopped, the exchange rates (Bank of Mozambique buying rate) were \$1 = 34 MT and Rand 1 = 2.8 MT. By 25 November it was \$1 = 55 MT and Rand 1 = 3.8 MT, which the IMF considered to be the correct value for the Metical. But the devaluation was reversed and by yesterday the rates were down to \$1 = 45 MT and Rand 1 = 2.7 MT. The Bank of Mozambique has always been more concerned about the Rand exchange rate because so much of the food and other basic goods for Maputo is imported from South Africa and thus devaluation of the Metical against the Rand raises prices in Maputo. This caused the riot in Maputo in 2010.

The IMF expects the devaluation to increase inflation by raising the cost of imports. The IMF also warned that "Mozambique remains at moderate risk of external public debt distress, but risks have heightened considerably as the Metical has depreciated vis-à-vis the US dollar."

And there was a dramatic increase in inflation in December, the Bank of Mozambique's Monetary Policy Committee said on 15 January. Inflation in December was 5.77%, bringing inflation for the

year to 11.1%. The committee cited as causes the devaluation, raising of some controlled prices, and the annual speculation by traders in the Christmas period. The biggest increases in Maputo prices were of tomatoes, rice, and onions - all imported from South Africa - as well as fresh fish, oil, maize, coconuts and green vegetables.

Subsidies maintained

Subsidies in 2015 were MT 3.8 bn (about \$100 mn), which was 0.6% of GDP. Low oil prices mean that there will be no fuel subsidies this year. But other subsidies, including wheat, flour and transport, will continue and will cost 0.4% of GDP this year, government said. In addition to the subsidies in 2015, government also had to pay arrears of about \$100 mn to fuel distributors to compensate for past under-payments, and had to cut expenditures in other areas to do this.

The IMF is highly critical of the fuel import system, and it says that half the fuel subsidy was just to compensate for inefficiencies in the fuel importing and to subsidise the state company, Petromoc, which has a majority stake in the monopoly importer, Imopetro. It also notes that fuel subsidies mainly benefit the better off, with 48% of the subsidy going to the top fifth of the population in urban areas.

Cheap forex? Is BoM denial contradicted by IMF?

The IMF also notes that as part of the fuel import system, "until November 2015 the Central Bank sold foreign exchange at a more favourable rate than the effective interbank rate to help reduce the import bill and offset some of the system inefficiencies." This partly contradicts the impression that the Bank of Mozambique tried to create at a 10 December 2015 press conference. *Africa Confidential* had claimed in December that the Bank of Mozambique had only just stopped an "administrative exchange system" under which it sold dollars at a discounted exchange rate to companies, particularly those belonging to former President Armando Guebuza and his allies. (Mozambique news reports & clippings 305) On 10 December both Bank of Mozambique officials and the head of Guebuza's main company, Intelec, denied such a system existed. But the IMF says some form of the system did exist.

Also from the IMF

The \$283 mn IMF loan is a "standby credit facility" which means that the government can draw on it when needed. It was approved on 18 December; \$118 was available immediately and the remainder in two tranches, subject to conditions.

Liquefied Natural Gas (LNG) will account for more than half of GDP and half of government fiscal revenues by 2028. But in the early 2020s government revenue will remain low "because of large depreciation costs for gas liquefaction facilities." Total fiscal revenue to the government during the life of the project, up to 2045, will be \$500 billion. The IMF now predicts there will be 17 LNG trains (condensing units); the first will come into production in 2021 and all will be producing by 2028. This means "GDP growth rate between 2021 and 2025 could reach 24%."

Over 80% of public debt is external and the "vast majority" is on concessional terms.

Value added tax (VAT) continues to be a problem. It is a complex system imposed by the IMF in 1995 over government opposition and has never run smoothly. Businesses pay VAT on the goods they import, but can reclaim the VAT if they sell those goods on. This works in Europe but not in Mozambique and huge arrears built up. These were finally settled by issuing more than \$200 mn in government bonds last year, but government predicted that by the end of 2015 another \$150 mn in arrears would have built up.

The concept of "priority spending" is a nonsense, because 70% of government spending is now classified as priority. But the classification system is that entire ministries are seen as priority. "For example, the purchase of new cars for the Ministry of Health would be classified as priority to the same degree as the procurement of vaccines," the IMF notes.

And some quotes from the IMF

"Mozambique's economic prospects remain positive"

"The main objective of fiscal policy in 2016 is to ensure debt sustainability and contribute to the required external adjustment."

"Interest rates on bank lending remain prohibitively high for SMEs and commercial banks' responses to central bank's policy rate adjustments are sluggish. ... High deposit and credit concentration could be part of the reasons contributing to the high lending interest rate." Concentration: "the top 3 largest commercial banks accounted for 83% of total lending" while "the deposit base is very narrow and also concentrated among a few large institutional clients, including public companies."

Other News

El Nino brings drought, rain

El Nino has brought a second year of drought to Malawi - considered by the World Food Programme (WFP) to be "worst affected" - as well as Zambia, Zimbabwe, parts of South Africa and southern Mozambique, and is creating serious food shortages. Mozambique's Food and Nutritional Security Technical Secretariat (SETSAN) and the National Disaster Management Institute (INGC) say 176,000 people, mostly in Gaza and Inhambane, are facing acute food insecurity. A further 575,000 people still have stocks of food, but when those run out they too will be dependent on food aid. The National Meteorological Institute (INAM) predicts that dry conditions will persist in southern and central Mozambique for the next three months. (WFP 18 Jan; AIM En 30 Dec, 8, 11, 16 Jan)

In response to severe droughts in the south and heavy rains in the north, the government's Disaster Management Technical Commission (CTGC) on 15 January announced an orange alert, one step removed from the maximum state of disaster readiness, a red alert. Under an orange alert, the regional Emergency Operational Centres and Local Disaster Risk Management Committees are to pre-position search and rescue equipment, and supplies of humanitarian aid.

In Tete province, 64,000 hectares of crops have been lost. In the normally arid west of Gaza, Paulo Cuinica, head of the Combomune administrative post, said "there's no longer any water in the region. The sources dried up a year ago," and cattle are dying.

But despite the drought in neighbouring Malawi, northern Mozambique is having heavy rain and INAM predicts that in the coming three months Nampula, Niassa and Cabo Delgado and the northern parts of Zambézia will have above normal rainfall. Torrential rains have hit northern Zambezia and Linchinga, Niassa. Soils are now saturated, and the forecast is for 300 millimetres of rain in the next 15 days in the north. In Cabo Delgado, three rivers are now at flood alert level.

Frelimo Central Committee to meeting 5 Feb

Frelimo's Central Committee will hold an extraordinary meeting on 5 February in Matola, the Political Commission announced on 24 December. This will be the first since Philip Nyusi took over the presidency of the party in March 2015, and is expected to replace some loyalists of the previous president, Armando Guebuza. Officially the meeting is to implement a directive from the

last Central Committee meeting, that no member of the national or a provincial parliament can also hold office inside the Frelimo structures. This was a step toward separation of party and state. Three Secretariat members also sit in parliament and will stand down; secretary general Eliseu Machava is not an MP, but could still be replaced.

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Chickens and beer:

A recipe for agricultural growth in Mozambique

by Teresa Smart and Joseph Hanlon

E-book for Kindle and iPad, for \$9.32 from US Amazon -
<http://www.amazon.com/dp/B00NRZXXKE> - £5.14 from UK Amazon.

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

Galinhas e cerveja: uma receita para o crescimento

by Teresa Smart & Joseph Hanlon. Copies are in Maputo bookshops or from
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Mozambique media websites:

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O Pais: www.opais.co.mz

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

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

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Macauhub English: www.macauhub.com.mo/en/

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

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

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