

MOZAMBIQUE News reports & clippings

378 20 July 2017 Editor: Joseph Hanlon (j.hanlon@open.ac.uk)

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Thumbs down from IMF

The IMF mission which left Mozambique yesterday rejected what it had been offered by the government. The Kroll report on secret debt with its lack of "critical information" is again rejected. And the IMF made harsh demands for tax rises, spending cuts, no new investment and action on state companies. The IMF statement pointedly said "this mission will not result in a Board discussion," which means no new IMF programme this year and no resumption of aid which has been cut off.

The 10-19 July mission was headed, as have recent missions, by Michel Lazare, who repeated and strengthened his past demands. He explicitly cited the 24 June press statement on the Kroll report, saying that "critical information gaps remain unaddressed regarding the use of loans proceeds." The government must "take steps to fill the information gaps and to enhance its action plan to strengthen transparency, improve governance, and ensure accountability."

Clearly annoyed that the government had not listened to past statements, Lazare said "the 2018 budget should decisively reduce the fiscal deficit." The government "should focus on:

- + eliminating tax exemptions (including for VAT),
- + containing the expansion of the wage bill, and
- + prioritizing the implementation of only the most critical public investments, while avoiding the further accumulation of arrears."

"Urgent action is also needed to strengthen the financial position of loss-making companies and limit the fiscal risks they represent."

Lazare always stresses wage cuts and attacks state companies. But this package contains new austerity measures, including tax rises and a sharp cut in public investment, which is in part pointed at announcements of non-essential projects such as Xai-Xai airport.

Three new phrases are also important. "Reduce the fiscal deficit" means government cannot

Secret debt documents and report:

Kroll audit Executive Summary <http://bit.ly/Kroll-sum>

Parliamentary Report on the Secret Debt (complete, in Portuguese) bit.ly/MozAR-debt

Key points from the Parliamentary Report on the Secret Debt <http://bit.ly/MozAR-debt-En>

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

Other books and reports:

Local media monitoring of Mozambique elections (background of election newsletters)
<http://bit.ly/LSE-newsletter>

Chickens and beer: A recipe for agricultural growth in Mozambique book by Teresa Smart and Joseph Hanlon, **free** English download <http://bit.ly/chickens-beer>

Há mais bicicletas - mas há desenvolvimento? book by Joseph Hanlon and Teresa Smart, **free** Portuguese download <http://bit.ly/Mais-bicicletas>

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

Minimum wages & exchange rates 1996-2017 <http://bit.ly/MinWage2017>

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continue to spend above its income, in part through domestic borrowing. And "avoiding the further accumulation of arrears" points to the way that the government has been surviving simply by not paying its bills, and seems unable to even provide an accounting of how much it owes. Similarly "fiscal risks" refers to the huge debts of some state companies, which also remain unclear.

The demands for further austerity were expressed in normal IMF jargon: "Macroeconomic policy discussions centered on the urgent need to further consolidate public finances. The team emphasized that a strong commitment to fiscal adjustment is an essential element to ensure policy sustainability, foster a decline in inflation and interest rates, limit further increases in public debt, while at the same time facilitate debt restructuring." Unpacking this, the phrases "consolidate public finances" and "fiscal adjustment" mean spend less. "Limit further increases in public debt" means the government cannot continue with the rapid expansion of local, domestic borrowing.

But he adds that "protecting critical social programs and reinforcing the social safety net should cushion the impact of these measures on the most vulnerable segments of the population."

Meanwhile, Lazare stresses that Mozambique's overall economic outlook "remains challenging" and that any increase in growth this year will be entirely due to an increase in the export price of coal. Virtually the only praise in the statement was that "the government took important steps by removing wheat and fuel subsidies and reinstating the old automatic fuel price mechanism in March."

<http://www.imf.org/en/News/Articles/2017/07/19/pr17290-imf-staff-concludes-visit-to-mozambique>

Comment: As well as the normal IMF austerity prescription, Michel Lazare is using his knowledge of Mozambique to go after the rent-seeking and patronage aspects of the Mozambican elite. State companies such as the airline LAM have long provided jobs, contracts and other benefits for the Frelimo elite; extra posts in ministries and provincial administration are for party cadres and push up the wage bill; contracts for supplies and projects provide important revenues. Opposition parties remain quiet about this because they hope to benefit in the next elections by winning posts that would give them power over such spending. This was underlined by the purchase of 18 Mercedes Benz cars for \$3.8 million for members of the parliamentary Standing Commission, initially agreed by members of all three parties and only after public outcry rejected by the opposition parties, but again last week defended by the speaker of parliament, Veronica Macomo. "Members of the Standing Commission are above the level of ministers. Therefore, in legal and procedural terms, we do not see any problem," she said. (AIM En 12 July)

This presents a serious problem for President Filipe Nyusi at the Frelimo Congress in September. The \$2 bn secret debt is widely believed to have benefitted some senior Frelimo people, and at lower levels the party has become dependent on patronage, jobs and other benefits paid by the government. The Frelimo leadership has pretended that the delays in the gas projects and the end to budget support and IMF programme would not halt the gravy train because it could borrow domestically and delay paying its bills. Lazare says explicitly this cannot continue. Will the Congress allow at least a few secret debt scapegoats to be identified and accept some belt tightening? Or will it block its ears and continue to pretend that Mozambique can have Mercedes at the top and hand money down the patronage chain? *jh*

Japan has suspended new lending because of the secret debt, Japanese Agency for International Cooperation (JICA) representative Yamashita Chigiru told *O País* (20 July). He added "we cannot just suspend loans: we have to create conditions so that the [debt] problem does not repeat itself. It does not make sense for Mozambique to make the same mistake again, given the impact on its population."

Interest payments were not made on 18 July on the government bonds which replaced the Ematum bonds, the Ministry of Economy and Finance announced on 17 July. Last year, the government nationalised the private loan to Ematum and replaced it with a \$726,524,000 10.5% government bond to be repaid in 2023, with interest paid twice a year. The statement said: "As mentioned by H.E. the Minister of Economy and Finance, during the investor presentation in

London on 25 October 2016, and as reiterated in the Ministry's communique dated 14 November 2016 and 16 January 2017, the challenging macroeconomic and fiscal situation of the Republic has severely affected the country's public finances. The resulting debt payment capacity of the Republic remains extremely limited in 2017, and does not allow the Republic room to make the scheduled interest payment on the Notes. The Government is committed to finding a consensual and collaborative resolution to the current financial crisis through dialogue with the holders of its direct and guaranteed external commercial obligations. It will be critical that any solution is based upon a realistic appraisal of the Republic's capacity to pay."

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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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Other books and reports by Joseph Hanlon

Special report on four poverty surveys: 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/>

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 (Karibu at airport, Livaria UEM, Bazar Pariso, Mivany) or from
KAPICUA, which recently moved to Av de Maguiguana (nr Lenine), Maputo; Tel: +258 21 413 201.
Tel.: +258 823 219 950 E-mail: kapicuadir@tdm.co.mz / kapicuacom@tdm.co.mz
Outside Mozambique, we have a few copies we can send from London. Please e-mail 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.riener.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>
Há mais bicicletas - mas há desenvolvimento? free download of Portuguese edition (5 Mb)

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 be **read on the web** 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

O País: 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://oficinasociologia.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

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