

MOZAMBIQUE News reports & clippings

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Editor: Joseph Hanlon (j.hanlon@open.ac.uk)

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In this issue

World Bank admits its policy failed

+ Inequality, poverty, corruption demand 'rethink'

+ Rethink whose model?

+ Bank confronts Nyusi over Cabo Delgado

+ Little gas money until after 2035

+ Reduce poverty by supporting agriculture

+ OMR - the agricultural policy alternative

World Bank admits its policy failed, leading to high growth but inequality, poverty, corruption; Admits need to "rethink" current model

The World Bank in two reports in June admits the catastrophic failure of its policies in Mozambique over the past three decades. "Mozambique's decades-long remarkable growth performance [makes it] one of the fastest growing economies in sub-Saharan Africa (SSA)." But it follows a "growth model that has been associated with a rise in inequality" and poverty, reports the *Mozambique Country Economic Memorandum* (CEM).

Mozambique "in now amongst the most unequal countries in SSA" and "people in the bottom 40% of the income distribution have been largely left behind. ... Mozambique's impressive growth rates have disproportionately benefitted those at the top of the income distribution in urban areas." Rural roads remain poor while "infrastructure investment, notably road transport, has been skewed towards urban areas and export corridors."

"Mozambique's existing growth strategy of "dependence on export-oriented, capital intensive megaprojects, with limited linkages to the rest of the economy ... has been limited in its capacity to generate productive jobs and support accelerated poverty reduction. ... Today most jobs do not provide a sufficient stream of income of lift workers and their families above the poverty line."

Mozambique is constrained by "weak governance and corruption" and "corruption is increasing". The CEM adds that "Mozambique is ranked among the most corrupt countries in the world" and governance indicators are below the SSA average. Procurement is biased toward "well-connected firms".

"The country has one of lowest levels of learning compared to those of its peers ... and overall learning levels are significantly lower in the North and Centre of the country". The *Mozambique Economic Update: Getting Agricultural Support Right* was also released in June and makes similar points. "Compared to its peers in SSA, Mozambique has the lowest levels of land and labour productivity."

Comment

Rethink whose model?

CEM co-team leader and senior country economist Fiseha Haile wrote a blog on the CEM headlined "Mozambique needs a new growth model for sustained, inclusive growth". The authors of the CEM and Economic Update are too cautious to admit that the model that needs to be replaced is the one imposed by the World Bank. But the reports both cite as models countries that have not followed World Bank policies: Rwanda and Bangladesh (CEM) and Brazil and Mexico (Economic Update).

In the early 1990s, with the end of the Cold War and Mozambique's proxy war, the World Bank and IMF imposed "shock therapy" which was intended to *rapidly* convert the socialists to capitalists. Urgency meant the policy necessarily targeted powerful people in Frelimo, who had control of land, contracts, donor funds, etc and helped them use their power to become "oligarchs". Compared to Russia and the former Soviet Union, these were small oligarchs. But the intention was that oligarchs would look to the west, for technology and investment, and to transfer money from their countries to western banks. It was explicitly to create "oligarchs" who would serve the interests of western banks, companies and donors by simply taking a cut - known as "rents" - for serving western interests. The policy is built on the alleged "free market" which gives huge advantages to international business and put no stress on local development to make domestic capital competitive. And this has continued for three decades, supported by the donors and Bretton Woods Institutions.

It cannot be a surprise that building rent-seeking into the model leads to corruption and poor governance and it has repeatedly been reported by researchers for three decades. My own 1996 book was titled *Peace without profit: How the IMF blocks rebuilding in Mozambique*.

The surprise is that the World Bank is publicly recanting. Perhaps it reflects a younger generation of World Bank staff who never learned that the old model came from their institution. *jh*

World Bank confronts Nyusi over Cabo Delgado

"There is a widespread consensus that among the driving forces behind the insurgency is the systematic sense of exclusion and grievances that were capitalized by extremist groups," says the World Bank Country Economic Memorandum (CEM). The full page (page 26) of the CEM on Cabo Delgado is a direct challenge to President Filipe Nyusi who denies grievances play a role.

The insurgency is, in some cases, "supported by local population [which] signals the importance of addressing the socio-economic dimension," says the Bank. "With a poverty rate at 50%, the northernmost province of Cabo Delgado is one of Mozambique poorest. ... Districts are poorly served in terms of infrastructure and public services, with deficits in transport, access to markets, schools, health facilities and electricity." The CEM adds: "in Cabo Delgado, poverty reduction has been minimal."

"Disenfranchised youth ... with limited access to education, political voice, technical knowledge, and resources ... are pushed away from the development benefits. Most of the time options gravitate between taking low productivity informal jobs in urban centres, opting for illicit activities or, in this case, being recruited by extremist groups."

"The sense of neglect was exacerbated by the recent increased presence of the State in the province with a heavy-handed approach to formalization of extractives activities. This pushed local population away from extractives activities without alternative forms of employment or access to services." The problems are compounded by "systematic exclusion from political participation" which led to "the use of violence as a form of social participation".

The CEM concludes that "addressing the key sources of fragility is fundamental not only to curb current conflicts, but also to avoid replication and expansion. Thus far, government has mainly resorted to security interventions" but it must respond to "expectations about upcoming LNG benefits, increasing economic inequality [and] youth unemployment."

Little gas money until after 2035

Significant fiscal receipts from the gas are not expected until all the initial costs are paid, and "substantial LNG revenues are not expected until well into the 2030s," concludes the Economic Update. CEM estimates suggest that it will be four years after the resumption of work at Afungi before gas accounts for 2% of government revenue, and then another eight years before there big money arrives, jumping to 8% of government revenue. This will not happen before 2035.

The Economic Update contains a number of interesting statistics:

"The public sector wage bill continues to grow, [in 2021 reaching] 13.3% of GDP, up from 8% of GDP in 2008. This growth has been driven by discretionary rises in compensation elements beyond the basic salary."

"Donor grants declined to 2.2% of GDP in 2021 (from 3.6% in 2020), with shortfalls covered by the withdrawal of deposits from past capital gains and rising domestic debt issuances. Domestic debt stock reached 22% of GDP in 2021, up from 16% in 2019." And much of this was expensive sales of bonds to banks, with effective interest rates rising from 5% in 2015 to 10% in 2021. This is low risk and hugely profitable for the financial institutions, which discourages them from lending to higher risk small and medium businesses.

Military spending rose four-fold in just two years, reaching 2% of GDP in 2021.

Reduce poverty by supporting agriculture

"Agricultural growth would decrease poverty and inequality over three times faster than growth in any of the other sectors," reports the Economic Update. Mozambique has an "overreliance on exports of primary commodities and capital-intensive mega-investments with limited local linkages," says the CEM. It adds: "Countries that managed to achieve strong and relatively inclusive growth, including Uganda, Rwanda, and Bangladesh, did so by investing in the sectors where the poor earn their living, notably in agriculture."

But the Economic Update writers bump into a huge range of contradictions. They note that in the developed OECD countries, 40% of agricultural GDP comes from the state. The United States is higher, at 50% - half of the average farmers income is government subsidy. Mozambique is much lower, at 13%.

But what Economic Update does not say is that the reason for this is that neo-liberalism and shock therapy as applied since the 1990s says that poor countries cannot subsidise agriculture and the free market must apply - but this is imposed by the US and other OECD countries who never follow that rule themselves. And "over the last two decades, Mozambique has seen low and declining public spending on agriculture."

A similar problem arises when Economic Update notes that "compared to its peers in sub-Saharan Africa, Mozambique has the lowest levels of land and labour productivity." This is largely due to low use of inputs such as fertilizer and improved seeds. The report also argues that there is a need "to allow Mozambique's farmers to produce based on market signals." But there is a contradiction which the World Bank does not see. Without subsidy, fertilizer or organic farming is too expensive. The price paid to farmers in Mozambique for maize is so low that it does not cover the cost of fertilizer. So farmers have already responded to the market signals, and do not use fertilizer. So productivity is low.

OECD countries do not have a free market in agriculture - yet after three decades of failure, they still expect poor countries like Mozambique to follow the free market. And then the CES and Economic Strategy cite as models countries like Brazil, Rwanda and Bangladesh where the World Bank was not able to impose a free market in agriculture.

OMR - the agricultural alternative

The World Bank continues to dominate agricultural policy, but there is an important alternative local voice in Mozambique, the Observatório do Meio Rural (OMR, Rural Observatory, <https://omrmz.org/>), led by João Mosca and João Feijó. Reports are published frequently but most are only in Portuguese; a few are in English as well

OMR has also become the most important research group on the Cabo Delgado war. "Ingredients for a youth revolt - poverty, consumer society and frustrated expectations" by João Feijó, Jerry Maquenzi, and Aleia Rachide Agy is one of the best research papers setting out why young people join the insurgents. (In English, OR 121, Feb 2022, <https://omrmz.org/omrweb/download/8429>) "The lack of employment and the economic needs of the youngest are the reasons most mentioned by the interviewees to justify the option for violence. The reports reflect a deep feeling of vulnerability on the part of young people, in terms of lack of employment and difficulty in integrating into consumer markets. In a scenario in which agriculture is not a profitable activity, the violent expulsion of thousands of artisanal miners, an activity that generates numerous complementary jobs (taxi-motorcycles, food preparation, local rental, commerce, etc.), had a negative impact on local microeconomies. The increase in schooling of many young people contrasts with the difficulties of integrating into the labour market, so the economic precariousness and lack of alternatives make young people quite vulnerable to recruitment by radical and violent groups, especially in the face of promises of payment of monetary sums."

Two June papers by OMR director João Mosca look at the needs of agriculture and the development of the fragile state.

"No transformation of the agricultural sector is taking place. Capital (technology) has not intensified, labour remains the main factor of production, the number of holdings has increased due to the demographic effect and the average areas have decreased, productivity has remained the same or decreased in food crops and increased in cash crops, employment in agriculture, as a percentage of the population, has remained the same." (DR 175, 10 June, João Mosca e Yara Nova)

"Economic and commercial relations, based on the externalisation of the economy, on dependence on foreign investment, the exchange relations in international trade and the alliances between the elites of the developed countries and those of the less developed countries, permanently restructure the divisions of labour on a global scale, which reproduce underdevelopment and enrich the developed countries. For these realities to occur, there needs to be a fragile State that is unable to carry out its functions. ... A power infiltrated by corrupt people in the upper echelons that block any attempts at oversight. But the weak state must be strong enough to repress and threaten people in demonstrations and strikes and civil society organisations. The incompetence of the state (in the sense of the real incapacity to exercise its functions) is a purpose that interests capital and the national oligarchies in close alliance with each other." (DR 177, 28 June, João Mosca)

The two World Bank reports released in June are:

+ Mozambique Economic Update : Getting Agricultural Support Right (31 May 2022)

<http://documents.worldbank.org/curated/en/099524206212215648/pdf/IDU093b925ec0187c043db0b41c055df875bbba9.pdf>

+ Mozambique - Country Economic Memorandum: Reigniting Growth for All (dated October 2021 but the final version was only created on 8 March 2022 and only released in June 2022) -

<http://documents.worldbank.org/curated/en/099220105302232947/pdf/P1687540b030ec0bf0b9f00e2e1bc3dfce4.pdf>

and blog by the authors Fiseha Haile Gebregziabher & Fernanda Massarongo: "Mozambique needs a new growth model for sustained, inclusive growth"

(2 June 2022) <https://blogs.worldbank.org/african/mozambique-needs-new-growth-model-sustained-inclusive-growth>

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\$2bn secret debt trial: Daily press clippings in English on <https://bit.ly/Moz-Debt-Map-Trial> .

Important external links

Exchange rates 2006-21 & minimum wages 1996-2021 <https://bit.ly/Moz-Exch-wage-2021>

Covid-19 daily updated data <https://www.facebook.com/miguel.de.brito1> and

<https://covid19.ins.gov.mz/documentos-em-pdf/boletins-diarios/>

Daily flood and monthly dry season reports - <https://bit.ly/Moz-Flood-2022>

Cyclone trackers, <https://www.cyclocane.com/> and <https://www.metoc.navy.mil/jtwc/jtwc.html>

Cabo Ligado weekly report on civil war <https://www.caboligado.com/>

Previous editions of this newsletter: <https://bit.ly/MozNews2022> and <http://bit.ly/MozNews2021>

Downloadable books: <http://bit.ly/Hanlon-books> Election data: <http://bit.ly/MozEIData>

My Mozambique archive: <http://bit.ly/Mozamb>

Cabo Delgado

Archive with reports, detailed maps, and census data <https://bit.ly/Moz-CDg>

Special reports on the war

Evolution of the war: global vs local. 27 Feb 2020 <http://bit.ly/CDelgadoOrigins>

Religion is shaping Cabo Delgado civil war. 30 April 2020 <https://bit.ly/CDelgadoReligion>

Intensifying argument over roots of war. 28 June 2020 <https://bit.ly/Moz-492>

Are the drums of war silencing any hope of peace? 26 July 2020 <http://bit.ly/Moz-496>

A history of violence presages the insurgency. 13 August 2020 <http://bit.ly/Moz-498>

Military & economic intervention. 3 Sept 2020 <https://bit.ly/CDelgadoIntervene>

Mozambique heroin transit trade

English - LSE - 2018 - <http://bit.ly/Moz-heroin>

Portuguese - CIP- 2018 - <http://bit.ly/HeroinaPT>

2001 first article- *Metical* - English and Portuguese <https://bit.ly/MozHeroin2001>

Gas for development?

Gas_for_development_or_just_for_money?_2015 <bit.ly/MozGasEng>

Gás_para_desenvolvimento_ou_apenas_dinheiro?_2015 <bit.ly/MozGasPt>

Background reading

Special reports

Social protection report - 2017 Mozambique - <http://bit.ly/MozSocPro>

Special report on four poverty surveys: <bit.ly/MozPoverty>

\$2bn secret debt - in English

Secret debt trial (Aug-Oct 2021) press reports <https://bit.ly/Moz-secret-debt>

Kroll - Full report on \$2bn debt - <http://bit.ly/Kroll-Moz>

Kroll report summary - <http://bit.ly/Kroll-sum>

Key points of Mozambique parliament report - Nov 2016 - <http://bit.ly/MozAR-debt-En>

Following the donor-designed path to Mozambique's \$2.2 bn debt - <http://bit.ly/3WQ-hanlon>

In Portuguese:

Parliamentary Report on the Secret Debt (complete) <bit.ly/MozAR-debt>

2018 Constitution - <http://bit.ly/2KF588T>

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

Election newsletters are on <http://bit.ly/2H066Kg>

Ten books by Joseph Hanlon can be downloaded, free: <http://bit.ly/Hanlon-books>

Bangladesh confronts climate change (2016)

Chickens and beer: A recipe for agricultural growth in Mozambique (2014) is on <https://bit.ly/Chickens-Beer>

Há Mais Bicicletas – mas há desenvolvimento? (2008)

Civil War Civil Peace (2006): <https://bit.ly/Civil-War-Civil-Peace>

Moçambique e as grandes cheias de 2000 (2001)

Mozambique and the Great Flood of 2000 (2001)

Paz Sem Benefício: Como o FMI Bloqueia a Reconstrução (1997)

Peace Without Profit: How the IMF Blocks Rebuilding (1996)

Mozambique: Who Calls the Shots (1991)

Mozambique: The Revolution Under Fire (1984)

Apartheid's 2nd Front (1986) <available shortly>

These are still available for sale:

Galinhas e cerveja: uma receita para o crescimento (2014) (free in English)

Zimbabwe takes back its land (2013)

Just Give Money to the Poor: The Development Revolution from the Global South (2010)

Do bicycles equal development in Mozambique? (2008) (free in Portuguese)

Beggar Your Neighbours: Apartheid Power in Southern Africa (1986)

Mozambique media websites, English:

Club of Mozambique (free): <http://clubofmozambique.com/>

Zitamar (paywall): <http://zitamar.com/>

Mozambique media websites, Portuguese (all with partial paywall):

Notícias: www.jornalnoticias.co.mz

O País: www.opais.co.mz

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

Carta de Moçambique <https://cartamz.com>

Mozambique think tanks and pressure groups, Portuguese:

Centro de Integridade Pública: CIP <https://cipmoz.org/>

Observatório do Meio Rural: OMR <https://omrmz.org/>

Instituto de Estudos Sociais e Económicos: IESE <https://www.iese.ac.mz/>

Centro Para Democracia e Desenvolvimento CDD <https://cddmoz.org/> (some CDD in English)

Also CDD now controls Fórum de Monitoria do Orçamento - FMO (main debt group) <http://www.fmo.org.mz>
and RMDDH - Rede Moçambicana dos Defensores dos Direitos Humanos (a human rights group).

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