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Comment

Hoping 'something will turn up'

Mr. Micawber is a character in Charles Dickens's 1850 novel *David Copperfield* who is always in debt and frequently responds that "something will turn up". Maputo feels like that at the moment. The heavily indebted government on one side, and the lenders and donors on the other, seem to be assuming that "something will turn up". Neither side appears to be planning for the implications of the debt crisis or for how to get out of it. But the crisis is serious and getting worse.

The Crisis

The revelations of at least \$2.3 billion in secret loans taken in 2013-4 led the budget support donors to halt aid directly to the government and the IMF to suspend its lending under the Standby Credit Facility. Together this could cost Mozambique more than \$350 million in hard currency this year - the group of 14 budget support donors (G14) says it is withholding \$265 mn and the next tranche of the IMF credit would have been about \$82 mn, and some donors are withholding other funds to ministries. This came at a time when foreign investment and aid - the normal sources of dollars - were already falling, and there have been no recent windfalls of capital gains taxes from sales of mining and gas companies. Together, this means Mozambique is desperately short of US dollars and other foreign currency. Priority is being given to food and medicine imports, and there is little left to important anything else. The government will be hard pressed to keep up with fuel imports, which could lead to fuel shortages. Shortages of other imported goods are inevitable.

Meanwhile the government is also short of Meticaís. Since the beginning of the year it has been paying suppliers very late or not at all. There may soon be delays to salary payments of teachers and other civil servants.

Year on year inflation was 18.3% in May (16% in Maputo and 23.6% in Nampula) the National Statistics Institute (Instituto Nacional de Estatística) reported on Monday 6 June. The Bank of Mozambique official exchange rates on 7 June were Meticaís (MT) 59 = \$ 1 and MT 4 = Rand 1, compared to MT 35 = \$1 and MT 2.8 = Rand 1 just a year before - devaluations of 69% and 43%. (See note 2 below.) It is predicted that by the end of the year, the exchange rate could be MT 75 = \$1 and MT 5 = Rand 1.

All of this is creating a squeeze on ordinary people, with rapidly rising prices, especially of goods with significant import content such as bread.

Waiting for something to turn up

Donors and lenders have never been so angry. They are openly saying they have been lied to and that the government cannot be trusted. IMF Managing Director Christine Lagarde said that in keeping loans secret, the Mozambique government is "clearly concealing corruption." The G14

sent the government a letter in mid May saying that the secret loans were "perceived by partners as a serious breach of trust, poor governance and lack of fiscal responsibility." They then made a series of immediate demands including a full list of government and government-guaranteed debt, a full list of state owned companies, a report on "extra budgetary expenditure", and a "forensic audit" of the secret loans. This was to be just the start, and the G14 also demanded that the government take action on a range of issues relating to human rights, corruption, poverty reduction and mobilisation of resources.

Government responded by asking to set up a joint task force. This was rejected by the G14 in a letter on 26 May. "It is the understanding of the partners that it will be up to the Executive [President and Council of Ministers] to present and discuss first with national institutions the measures it intends to take to ensure maximum transparency and accountability in order to restore confidence in national systems." An IMF team will make its first visit later this month.

The IMF and donors made clear that they are in no hurry. In the past budget support donors have given lists of demands to government in closed negotiations and allowed it to pick and choose which to meet. Now donors have turned the tables, and said it is up to government to make appropriate proposals, and to do so publicly. In part this reflects disagreements within the donors and lenders as to what they want - indeed some are not even sure what to ask for, or what the government could offer to restore its credibility. In effect, the problem has been thrown into the lap of the government, and the IMF, and the donors will now wait for something to turn up.

On its side, government and Frelimo are relying on four things. First they hope to find some money, from the Chinese or Russia, by selling state companies and assets such as their share of the gas, and through partial or total default on debts. This would need to cover a significant part of the secret \$2.3 bn. If that were done, they hope that - as always in the past - donors and lenders have so much invested in the Mozambique "success story" and need to disperse money, so they will not let Mozambique collapse. In other words, like Mr. Micawber, they hope something will turn up.

The third line the government is pursuing is to try to convince the public that it has done nothing wrong. Various government statements have said the debt crisis will not affect government spending, that the halt to budget support is because of economic crises in Europe, and that spending on defence must be in secret and cannot be scrutinised by donors or parliament. All have been challenged by critics, who in turn have been threatened on social media and on the telephone; José Macuane, a regular commentator on the Sunday night STV television talk show "Pontos da Vista" ("Points of View"), was kidnapped and shot. A climate of fear has been created in which critics are increasingly nervous.

The fourth line is to remember the riots of 2008 and 2010 in Maputo, which responded to rising prices. The 2010 riot occurred when the Metical was devalued to MT 5 = Rand 1 and there had been a 40% devaluation against the dollar, sharply increasing the Maputo cost of living. Last year the government demanded that all mobile phone sim cards be registered, in order to be able to identify people using messaging to organise demonstrations. The riot police FIR and the security services SISE have been substantially reinforced (probably with some of the money from the secret loans), and on 29 April when there were threats of a demonstration new armoured cars were on the streets of Maputo. A properly organised protest demonstration scheduled for 21 May was banned. And João Massango, president of one of the small green parties and an organiser of the march, was beaten during an attempted kidnap.

What might happen

It is not just the lenders and donors who are angry; ordinary Mozambicans are angry, too. A comment I heard both in and out of Maputo was that the elite had the right to eat, but this group had eaten too much. And it will get worse. For the rest of this year, the shortage of dollars and Meticais, combined with inflation, will squeeze most people. Only later will it become clear that another impact of the secret loans means Mozambique will get nothing from the gas for a decade or more. Mozambique's National Hydrocarbons Company (Empresa Nacional de Hidrocarbonetos de Moçambique - ENH) owns part of both gas fields, but must put up more than \$1 bn for its share

of the gas liquification trains. To raise this money, it would have been sensible to go to the Eurobond market - but after the secret loans this is no longer possible. ENI and Anadarko are happy to pay ENH's share, but the price in gas eliminates most early earnings. Selling off gas to pay the debt will also reduce early income. So most Mozambicans may never benefit from the gas, and this will become more apparent in the next couple of years.

This could have electoral implications. Some older members of Frelimo will remember the 1999 election in which Joaquim Chissano beat Renamo head Afonso Dhlakama by just 200,000 votes. A shocked Frelimo investigated and discovered that many people had not voted for Chissano because of a perception of widespread corruption in the Chissano government, which had percolated down to local level. Because of this, Frelimo refused to let Chissano stand again in 2004, and Guebuza became the anti-corruption candidate. In 2014, Dhlakama won 1.8 million votes - nearly as much as in 1999 - and 37% of the valid vote, a much higher percentage than was expected. In particular, it suggested that Dhlakama was not blamed for the 2013/4 war and the attacks on traffic.

The next national elections are in 2019, in just three years. If the economic crisis, with inflation and shortages, continues and there is anger about the Frelimo elite eating the oil money, could Dhlakama win the election?

Decisions made by lenders and donors - and by Frelimo itself - could have a direct impact on the outcome of the 2019 elections. Can Frelimo give enough to allow the donors and lenders to come back on board and permit everyone to save face - and do it quickly enough to end the crisis well before the next elections?

Negotiations

Any resolution of the debt crisis will require complex, multi-level negotiations. On the Frelimo side there are various groups. Although negotiated by a small group, the secret loans have benefitted a larger group who will resist exposure through a forensic audit and will not want to - or perhaps not be able to - return their share of the money. On the other side are those in the party who are angry at the greed of an elite group - because they were excluded, because they feel the greed of this group harmed national development, or because they feel the survival of the party itself is now threatened. Two forces which have come to prominence in recent years and benefitted from the loans - the riot police FIR and the security services SISE - are now independent actors in internal negotiations. Meanwhile, there are substantial differences between the various donors and lenders. And various foreign security services and arms dealers also have a voice.

Finally, the negotiations with Renamo impinge on the debt issue. Whatever is agreed about the military and governors, Afonso Dhlakama and his generals will expect a substantial payout. A few years ago, \$100 mn would have seemed like a lot of money. Now Dhlakama will argue that the Frelimo elite has eaten \$2 bn and he deserves a similar share, and it will be hard to argue for a payment of less than \$500 mn. Previously it might have been possible to find that much money; now it is harder. Will the donors and lenders help with that sort of payoff, if it really would end the war?

Perhaps the most worrying outcome of my recent discussions in Maputo is that there seem to be very few people inside government and Frelimo or on the international side looking at what might happen in the next few months or years. And there seems to be little serious discussion of how possible choices and actions will shape those outcomes. Like Mr. Micawber, everyone seems to be hoping that something will turn up.

Joseph Hanlon

Notes:

(1) The phrase "Something will turn up" is inscribed on the edge of the two pound coin issued in Britain in 2012 to commemorate the 200th anniversary of the birth of Charles Dickens.

(2) Devaluation is calculated against the starting exchange rate. The change in dollar exchange rate was $59-35=24$, so the devaluation is $24/35=0.69$. Thus a 100% devaluation means the currency is worth half what it was at the start.

And an historic note

Finance Minister Adriano Maleiane lost a similar bruising battle with the IMF and World Bank 20 years ago. At that time he was governor of the Bank of Mozambique (BdM). In 1995-7 the IMF and World Bank jointly demanded that the two state-owned commercial banks be privatised. Maleiane tried to organise privatisation to international banks, which probably would have been successful. He went to the Fund and Bank and asked for more time, saying the only possible buyers available on short notice were dubious or corrupt. The response was clear - the only thing that mattered was privatisation and corrupt private buyers were better than continued state ownership. In early 1997, the IMF said that aid to Mozambique would be cut off if Banco Popular de Desenvolvimento (BPD) was not privatised by the end of June. It was privatised and as Maleiane predicted, the Mozambican and Malaysian buyers looted the bank, culminating in the murder of a António Siba-Siba Macuácuá, BdM director of banking supervision who had been put in charge of cleaning up BPD. No one was ever exposed or punished. (A series of articles on the 1995-2001 banking crisis - Killing the goose that laid the golden eggs - was published in *Metical* in September 2001, <http://bit.ly/1X9RsWk> or <http://www.mol.co.mz/noticias/metical/2001/en010917.html>)

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