MOZAMBIQUE 162
News reports & clippings
3 May 2010

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Attached files:
Minimum wages and exchange rates
Economic challenge articles (cashew, Ratilal, Mosca), wheat
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Metical drops against $

The Metical has fallen 7% against the US dollar in two weeks. In mid-April there were Mt 31.2 to the $, but by the end of the month this had fallen to Mt 34.2 (official Bank of Mozambique exchange rates). From 2002 to 2008 the Metical has been pegged at between 24 and 26 to the $. Since late 2008 it has been steadily devalued against the dollar by about 10% per year. As the graph in the attached file shows, there has been substantial variation, but the recent devaluation is unusually large.

New minimum wages

New minimum wages were announced on 27 April. There are now 11 different minimum wages, ranging from $49 per month for sugar workers to $82 for electricity and gas workers, and then a separate and much higher $108 in the financial sector. Except for the financial sector, all minimum wages are lower, in $ terms, than two years ago, because of the devaluation of the Metical. Minimum wages had been rising steadily since 1996, when there was a single $24 per month minimum. A separate agricultural minimum was introduced in 2000 and in 2008 there was a shift to the 11 different minimum wages. Tables and graphs of minimum wages are in the attached file.

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Challenges to economic policy

Three economic leaders have very publicly challenged the government's economic polices in the past two weeks, particularly the failure of government (and donors) to invest in agriculture. The deputy director of the government's National Cashew Institute (INCAJU), Raimundo Mathule, said that despite record cashew production, which is directly benefitting peasants, there is no investment capital to continue increasing production. Former central bank governor Prakash Ratilal stressed that the private sector on its own will not develop Mozambique and government must invest. And rural development professor João Mosca notes that "we are beginning to accept that our economy is not going so well."

No cashew investment

The cashew harvest is the highest in many years, and already exceeds 95,100 tonnes of raw cashew nuts. Peasants are receiving 11 meticais a kilo (35 US cents) compared to 5 meticais (19 US cents) last year. Mozambique could double production but that would require an investment of $60 million, which is not available, said the deputy director of INCAJU, Raimundo Mathule.

Vietnam has become a global market leader by investing $60 to $70 million dollars in production alone (not to mention processing) over the past three years. INCAJU does not have access to such sums, he said.

INCAJU has concentrated on spraying trees against powdery mildew -- it now sprays 4.5 million trees per year -- and on growing saplings of cashew varieties more resistant to pests -- where finance limits it to only producing 1.5 million trees per year.

The local cashew processing industry is expanding, but Incaju's income is from the 18% surtax on the export of unprocessed nuts, which is yielding $2 million this year, of which 80% goes to production and 20% to increase the capacity of factories to produce cashew kernels.

Ratilal: Government and donors should invest in agriculture

In an outspoken interview in *Savana*, Prakash Ratilal, former governor of the Bank of Mozambique and now head of Moza Banco and Moçambique Capitais, said that the Mozambican state had to play a "decisive role" in developing the private sector, providing both money and technical support. "The state must promote development; it cannot just be a regulator." He cited Brazil, "where the boom did not emerge just from the private sector", but because it was promoted by the government, the universities, and the Brazilian national development bank. In Mozambique, agricultural investment is key, and both donors and government should invest. And the state must make more of a contribution to the growth of small and medium enterprises. (SMEs)

Ratilal argues that “southern Africa is in a situation very similar to the Far East in the 1970s and 1980s, when Taiwan, Malaysia, South Korea and Indonesia made their great economic leaps”-- again with both state and private working together.

Ratilal stresses that Moza Banco is an investment bank which must make a profit, so it cannot provide the additional support services of a development bank, which he considers essential for Mozambique. Moza Banco is 51% owned by Moçambique Capitais which is owned by 289 Mozambican investors. And in an explicit reference to past corruption by the Mozambican elite, he says the company is still open to new investors but not to “rascals” <”*malandros*”> and will not accept money from criminal activity or money laundering.

Mosca: Are we recognising the failure of the donor model?

“Finally, we are beginning to accept that our economy is not going so well,” writes João Mosca, professor of rural development at the Universidade Politécnica, in his column in *Savana* (23 April). “The current change in discourse “may reflect the recognition of realities that are becoming incontrovertible and no longer camouflaged”.

And it is not just Mozambique. “There are many studies of various economies that clearly show that in most cases the structural adjustment of the Bretton Woods institutions produces poverty, social inequality, debility of the state, spatial asymmetries, subordination of agricultural and rural environment, and much more. Is this not what has happened in Mozambique in the past 20 years?” Has Mozambique reached the limits of a model based on external resources, “dependency and subservience”, he asks. If so, what changes should be made to the model of economic development?

And Prof Mosca, too, asks how to increase investment in agriculture. But he looks inward: “How to we get the Mozambican rich and capitalists to invest seriously in food production?”

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Is poverty not falling?

Prof Mosca in his column points to growing rumours in Maputo that results from the national family consumption survey (IAF, Inquérito aos Agrigados Familiares) in 2006-07 will show an increase in poverty. Data from the National Agricultural Survey (Trabalho de Inquérito Agrícola, TIA) 2008 shows that from 2002 to 2008 median rural income decreased slightly, while the gap between better off and poor increased.

The 1996-97 IAF showed that 69% of the population lived below the poverty line. The 2002-03 IAF offered two alternative figures, 63% based on the same poverty line, or 54% based on changed consumption patterns which effectively lowered the poverty line. Both government and donors accepted the lower percentage which appeared to show a dramatic fall in poverty in only six years. The Poverty Reduction Strategy Paper, the Action Plan to Reduce Absolute Poverty 2006-2009 (Plano de Acção para a Redução da Pobreza Absoluta, PARPA II), accepted the lower figure and called for a further cut to 45% by 2009. Donors have based their claims of success for aid and economic policy on the alleged huge fall in poverty. But it has not happened.

The use of the lowered poverty line (and thus the 54%) has been widely criticised. The more realistic 63% points to roughly 1% of the population taken out of poverty per year. That, in turn suggests that about 59% of the population will still be below the poverty line. And rumours point to an IAF figure in the 55-60% range, corresponding to past trends.

> **Comment**: The problem for donors and government is that so much has been pinned on the lower numbers. One donor said openly that his capital would not accept a poverty figure above 50%. Perhaps the best course forward is one of collective amnesia, forgetting the 54% claim and the 45% forecast, and instead take the 63% for 2002-03, which was, in any case, more realistic. Then is can be argued that poverty is continuing to fall. *jh*

London Seminar, Wednesday 5 May, Why poverty is not being reduced in Mozambique: London School of Economics, Crisis States Research Centre, seminar by Joseph Hanlon. Open to all. Wednesday 5 May at 4 p.m. in Room 114 in the LSE New Academic Building. The paper is available to download in advance from the Centre website:
http://www.crisisstates.com/events/seminars%2009-10.htm

Again, promoting production without markets

Yet again, Mozambique has promoted production but failed to create a market. Government provided 610 tonnes of improved wheat seed in Tsangano, northern Tete. It was sown on 7,550 hectares, and 10,600 tonnes of wheat was produced. But there was no market – the Beira milling company Mobeira went to Tsangano and bought only 30 tonnes of wheat, but never returned. So the crop was sold over the border in Malawi, for prices regarded as derisory.

Notes on the IMF

Joining IMF was political: Joining the World Bank and IMF in 1984 was largely a political decision, which was necessary to gain the rescheduling of Mozambique's debt, Prakash Ratilal, a former Bank of Mozambique (BdM) governor, said in one of a series of talks marking the 35th anniversary of BdM, according to *Noticias*. Mozambique's foreign exchange position was so serious that it did not have the initial money to pay its IMF quota, so this was lent by the Bank of England; as soon as the membership was finalised, Mozambique borrowed back the money from the IMF, and repaid the British, he revealed..

IMF backs fertiliser subsidy: *IMF Survey Magazine* (April 2010) has high praise for Malawi's fertiliser subsidy. "Malawi's recent robust economic growth has enabled one of Africa's poorest countries to make real strides in reducing chronic food insecurity and progress toward poverty reduction." This is partly because of "several bumper harvests for tobacco, the principal cash crop, and maize, stemming from good rainfall and the distribution of subsidized fertilizer."
http://www.imf.org/external/pubs/ft/survey/so/2010/CAR033110A.htm

IMF still neo-liberal: "Despite having recently raised expectations about reform of its fundamental policy stance, the IMF remains a long way from jettisoning the neoliberal underpinnings of its governing macro-economic framework," concludes Terry McKinley, director of the Centre for Development Policy and Research at the London University School of Oriental and African Studies (SOAS). Thus, "there is virtually no room for national policymakers to exercise any real discretion." A summary by McKinley is on http://www.soas.ac.uk/cdpr/publications/dv/file58920.pdf. This is based on a longer report "Standing in the way of development" which notes that "the traditional biases of the IMF continue to support macroeconomic frameworks where private interests supersede public interests and the role of the state, where the financial sector takes priority over the productive sector, and where foreign investors and corporate interests override those of domestic actors." This report is on http://www.boell.org/downloads/Standing_in_the_way_of_development.pdf

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Mozambique media websites:
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AIM Reports: www.poptel.org.uk/mozambique-news
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This 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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