MOZAMBIQUE News reports & clippings

274 10 November 2014 Editor: Joseph Hanlon (j.hanlon@open.ac.uk)

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IMF calls for:

More inclusive growth,
but education cuts
Fiscal prudence
Transparency

An IMF staff mission to Mozambique last week issued a short statement reiterating more heavily points the Fund has been making about Mozambique for some time. It says "recent program performance is mixed."

Given its normally conservative views, one of the International Monetary Fund's on-going clashes with Mozambique has surprised many people. The Fund has been concerned about the growing inequalities in Mozambique and the lack of poverty reduction and has been calling for more equitable growth and an increase in cash transfers and social protection. This has not been well received by the government of Armando Guebuza, which takes a more neo-liberal view of trickle-down growth and which dismisses cash transfers as "alms for the poor" which Mozambique does not do (although, under donor pressure, cash transfers are expanding slowly).

But the short statement issued by Doris Ross, head of the IMF staff team visiting Mozambique, again calls on government to "make growth more inclusive by enhancing agricultural productivity and job creation." And she goes on to say that "while the 2015 budget should begin to narrow the fiscal deficit, this should be achieved in a manner that protects social spending such as basic health and education, and social assistance programs."

But there is a sting in the tail, and a sharp contradiction. Ross tells government to "slow the growth of public spending, including the wage bill." But the biggest part of the wage bill is health and education - teachers and nurses salaries. And in her 14 March 2014 statement, Ross repeated calls for "moderation in new hiring" and reducing the wage bill - effectively hiring fewer teachers and nurses. In 2012, the Ministry of Education admitted that for more than two years students who graduated with good qualifications from the Pedagogic University had not been hired because university graduates are paid more than those without degrees, so the Ministry only hired those without degrees. The best trained teachers did not get jobs - to meet IMF targets. (See *News Reports* 251 and 205)

COMMENT: Low education quality, mainly due to large classes and poorly trained teachers, is a widespread complaint and became a campaign issue in recent elections. Investors, too, complain about the lack of skilled people at all levels, but the education system cannot afford to produce them. Indeed, a World Bank report earlier this year said Mozambique should increase spending on education and public health because increased spending on "public goods and services … offer high returns." ("Generating Sustainable Wealth from Mozambique's Natural Resource Boom". http://bit.ly/QiYwjt)

The IMF view is also surprising following the recent Ebola outbreak in West Africa, the rapid spread of which is largely blamed on the very poor coverage of the public health systems there. After its civil war ended in 2002, Sierra Leone was blocked by the IMF and international financial institutions from expanding its health service and was forced to introduce health charges which excluded the poor. There seems to be a growing recognition that African countries need to spend more on health - but it has not yet reached the IMF. There are few international health rankings, but the Legatum Institute attempts an International Prosperity Index. Mozambique ranks 120 out of 142 counties. But for health, it ranks 137. Of two of the Ebola counties, Liberia actually ranks higher in health than Mozambique at 133, and Sierra Leone at the bottom at 142. (http://www.theguardian.com/news/datablog/2014/nov/03/european-countries-dominate-in-global-prosperity-rankings)

But, despite the warnings from West Africa and the call of the World Bank for more spending on public goods, Ross and the IMF still want to squeeze public health and education. That could be the point. Increased private spending on health and education is encouraged; only public spending is restricted. The hope may be that poor quality public education and health will push the middle classes into private provision, which is clearly happening in Mozambique. The problem is that the Mozambican middle classes are not large or wealthy. Private education may seem expensive to Mozambicans, but the new private universities are increasingly doing the courses which are least expensive to present, such as marketing. They are not producing the engineering, science and agronomy graduates that investors are demanding. Last week I met a Mozambican businessman who had just hired a business administration graduate from one of the private universities. He was asked which business computer programmes he used. The reply: "None. My university had only a few computers and they were kept for the computer science students. Business students could not use the computers." Private universities are not producing the graduates private businesses need, so investors want better state education - but the IMF disagrees. *Joseph Hanlon*

And on the fiscal side

One of the strongest messages came when Doris Ross simply reminded the government what it had already promised to do: “The authorities are appropriately committed to (i) further strengthening their management of public resources, including by adopting a fiscal rule to improve the management of windfall revenue; (ii) enhancing the transparency and efficiency of public investment; and (iii) strengthening the management of public enterprises and disclosing the audited annual reports of the largest ones, including the Mozambican Tuna Company (EMATUM)." The audited Ematum report early next year is also an important benchmark for the G19 budget support donors.

Ross and her team also issued warnings of increased risks in the natural resources sector due to "the decline in commodity prices in world markets, especially for coal, and uncertainty about the large Liquefied Natural Gas (LNG) projects." She continues that "while substantial natural resource revenues are 6-10 years away, efforts are needed to put in place adequate institutional arrangements and capacity to address the large new challenges associated with this sector and the promise it holds for the country."

Government needs to improve "public financial management."

Finally the mission seems to support hints by Bank of Mozambique administrator Waldemar de Sousa that high interest rates are being maintained through collusion by the big banks. "Real interest rates in Mozambique are still high by international standards, and reforms should address the underlying structural factors to make financial markets more flexible, and thus reduce borrowing cost," Ross notes. "Structural factors" is probably a polite way of saying the banks are working together to keep rates high.
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"IMF Staff Concludes Review Mission to Mozambique, Calls for Fiscal Prudence, More Inclusive Growth, and Greater Public Investment Transparency," Press Release No. 14/502, 5 November 2014, includes the Doris Ross statement and is on http://www.imf.org/external/np/sec/pr/2014/pr14502.htm

Doris Ross is also the editor of the July 2014 IMF report, *Mozambique Rising,* http://www.imf.org/external/pubs/ft/dp/2014/afr1404.pdf

Gas and coal nervousness and deals

Anadarko is showing signs of nervousness as it tries to wrap up enough huge long-term gas deals to ensures an estimated $23 billion in finance for gas liquification trains. Anadarko faces several problems. First, it may be big, but it is small by oil and gas standards so this project is high risk, even though it has sold off significant segments. Second, it is still negotiating the final deal with government, including an all-important decree law. Third, it is still having problems figuring out how to deal with the new Pemba logistics centre, whose non-transparent ownership by the Mozambican elite and the controversial Nigerian-Italian company Orlean Invest make it hard to meet anti-corruption regulations.

Is the nervousness real, or just a negotiating ploy? A paper issued on 5 October by the Public Integrity Centre (CIP, Centro de Integridade Publica) noted that "given the scale of the proposed project, CIP believes that the negotiation of a Decree Law is inevitable. There remain serious risks, however, that the Decree Law will be flawed due to the private interests of political and government elites, unreasonable pressure for rapid agreement from Anadarko and ENI, and a complete lack of public discussion on the big issues that need to be addressed. "
http://www.cip.org.mz/article.asp?sub=poil&docno=327

The problem is that the initial gas contracts did not include export as LNG - liquefied natural gas. A new contract therefore must be negotiated and government decided that it will have the status of a decree law in order to create exemptions from existing laws and regulations and to provide investors with greater confidence that the contract will not be subject to future negotiations. In particular, CIP has questions about fiscal terms and share of profits and warns about the danger of the secret negotiations.

One issue seems real, that the LNG plant cannot be delayed and most come on-stream before a large group of other suppliers begin producing in 2021. Projected over-supply, partly caused by gas from fracking of shale in the US, is causing worry in the industry.

Traditionally, LNG prices are linked to oil prices. But industry sources say Anadarko is offering to price the gas based on other prices including crude oil and United States gas prices. Anadarko already has deals to sell to China, Japan, Indonesia, Thailand, India and United Arab Emirates.

Meanwhile, dramatically falling coal prices are causing the biggest investor, Vale, to sell part its holding, but also attracting Indian interest. Vale has made clear for the past year that it wants to sell off at least a quarter of the Tete coal mine and half of its 70% share of the Moatize to Nacala railway and port. An announcement of a sale of part of the mine is expected shortly.

The Indian Ministry of Steel has set up a state-owned company, International Coal Ventures Limited (ICVL), to import coal for Indian state-owned steel and power companies. ICVL on 8 October agreed to pay just $50 million to Rio Tinto for the former Riversdale coal mines and concessions once valued at $3.7 bn. ICVL now owns 65% of the Benga mine in Tete, the only operating former RTZ mine, which is losing money. The rest is owned by the private Indian Tata Steel. Riversdale never sorted out how to ship the coal to the sea, and ICVL will invest $500 million in logistics.

Vale still hopes to ship the first coal along its new and upgraded railway line and through its new Nacala coal terminal this year, but time is getting short. Meanwhile falling coal prices are now putting question marks over the Moatize-Macuse/Supinho (Zambézia) railway-port development supposedly being built by a consortium led by Bangkok-based contractor Italian-Thai Development.

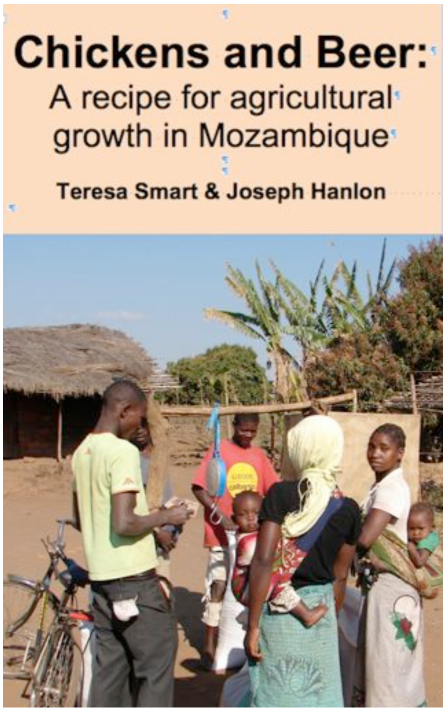
Big investors pushing peasants off their land

Two of the biggest plantation investments in the north are pushing peasants off their land according to reports in @Verdade, which has moved to Nampula.

More than 1000 small farmers in the village of Wakhua, Lioma, Gurué, Zambézia have already been moved to make way for the 9000 hectare Agromoz soya plantation, according to Júlio Paulino, one of the best journalists in the north. Farmers lost their land and houses and received compensation of between 2000 and 6000 meticais - $67-200. Some only produced their own food, but others had become small commercial farmers already producing soya for the market. Agromoz (Agribusiness de Moçambique) is owned by Grupo Américo Amorim (one of the richest men in Portugal and largest shareholder in Banco Único de Moçambique), Intelec Holdings (where President Armando Guebuza is a major shareholder), and Pinesso (one of the big Brazilian soya companies) which is actually running the plantation. (The original article in @Verdade in Portuguese is on http://www.verdade.co.mz/tema-de-fundo/35/49809 and a translation to English is on http://farmlandgrab.org/post/view/24164)

Another article argues that the Norwegian forestry company Green Resources, which has taken over most of the timber plantations in Niassa, is evicting farmers in Ribaué and Mecuburi districts, Nampula, to plant eucalyptus. (The original article in @Verdade in Portuguese is on http://www.verdade.co.mz/tema-de-fundo/35 /49978)

For more on soya & Lioma, *Chickens & beer* is now available in English



Chickens and beer: A recipe for agricultural growth in Mozambique

by Teresa Smart and Joseph Hanlon

E-book for Kindle and iPad, for $8.37 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

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Outside Mozambique I have a few copies of the Portuguese edition in London which I can send. Contact j.hanlon@open.ac.uk for information.

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by Joseph Hanlon, Armando Barrientos, and David Hulme
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tinyurl.com/justgivemoney
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