Mozambique

Mozambique is only just adapting to its unexpected future as one of the top ten coal producers and top 20 gas producers in the world by the end of the decade. The government started learning to handle giant multinational mining and petroleum companies. Money would not flow soon, so Mozambique remained aid dependent, but the government made decisions that donors and the World Bank had previously blocked. There was increased jockeying for position as 2014 national elections approached with no clear presidential candidate.

Domestic Politics

The constitution barred President Armando Guebuza from standing for a third term in the 2014 elections. The Frelimo party remained more powerful than any individual and informally rejected soundings by the Guebuza camp to change the constitution as part of **initiatives to retain power for Guebuza**. President of the party and president of the country were separate posts, so it was agreed that Guebuza could retain the powerful post of party president. Frelimo rules gave substantial power to the Political Commission, even over the choice of government. 'O Pais' (28 August) quoted party Secretary-General Filipe Paunde as saying that the party directed the government and the Political Commission instructed the president. Thus Guebuza would remain in a powerful position, but if the national presidential candidate was not a close ally of Guebuza, there could be substantial tension and conflict. So his next move was to promote a weak candidate as next president and he pushed Prime Minister Aires Ali.

A new party central committee was elected at the 10th Frelimo Congress in Pemba on 23-28 September, and the central committee in turn elected the Political Commission, which ran the party. The central committee would also select the Frelimo candidate for the 2014 **presidential election**. Aires Ali failed to be elected to the Political Commission, and it was unlikely that the Central Committee would choose someone as presidential candidate who had failed to be elected to the Political Commission. Two weeks later, Guebuza dismissed Ali from the post of prime minister. Alberto Vaquina, a medical doctor and governor of Tete and a member of the Political Commission was appointed in his place. Former prime minister and former finance minister Luisa Diogo, who had become the anyone-but-Ali candidate, failed to be re-elected to the Political Commission. So, at the end of the year, there was no obvious presidential candidate. But the Congress underlined that Frelimo remained a democratic and unpredictable party; Guebuza was perhaps powerful, but he did not have absolute control.

The Congress also showed that Frelimo was no longer the party of the workers and peasants, but the party of the bureaucracy: 1,607 of the 1,955 **congress delegates** stated their occupations and 924 (57%) worked for the state or party (108 teachers, 26 nurses, 468 other civil servants, and 322 Frelimo staff). Only 126 delegates (8%) were farmers, seven (0.4%) were industrial workers and 289 (18%) were technicians, while 129 (8%) described themselves as business people or proprietors.

The main **opposition party**, Renamo, became increasingly marginal. On 8 March, there was a shootout between Renamo and the police; one policeman was killed and 23 Renamo people were arrested. In October, party leader Dhlakama and some of his supporters moved to rural Gorongosa district in central Mozambique, threatening to destroy the country if the government did not meet his demands. On 23 October, he demanded that Guebuza come to Gorongosa to see him to negotiate a transitional government. Three rounds of inconclusive talks were held in Maputo in December between a government delegation headed by Agriculture Minister Jose Pacheco, who was a member of the Frelimo Political Commission, and a Renamo delegation headed by the party's new Secretary General Manuel Bissopo. On 18 April, a **by-election** in Inhambane caused by the death of the mayor was won by Frelimo's Benedito Guimino with 78% of the votes, on a respectable 39% turnout. The Mozambique Democratic Movement (MDM) received 22% and Renamo boycotted the election.

New **election laws** were agreed by parliament in December. Municipal elections would be held in November 2013 and national elections, for president, national parliament, and provincial parliaments, in October 2014. There would be a new registration in 2013 and an update in 2014. The new elections commission would have eight members in proportion to parliamentary representation (five Frelimo, two Renamo, one MDM), one judge, one prosecutor, and three members of civil society organisations. The law was agreed very late, in part because of the agreement between donors and government to end the donor strike (see Foreign Affairs). After confusion and incompetence during the 2009 elections, both the Constitutional Council (the highest court) and civil society organisations called for a unified electoral code rather than a set of different and contradictory laws. This would be drawn up outside parliament to avoid traditional party battles and Renamo intransigence. But the one concession that the government made to donors was to accept the somewhat unusual donor demand that civil society organisations and the Constitutional Council be ignored, and the old package of laws simply be amended.

Parliament approved a strong **Public Probity Law** on 11 May. The approval confounded sceptics, who were convinced that parliamentary leaders would not vote to cut their own incomes. The law created a category of office holders including the president, ministers, members of parliament, presidents of provincial and municipal assemblies, *vereadores* (municipal ministers), and district administrators, all subject to special restrictions: They were barred from receiving any other income from the state or from state companies; office holders and their close relatives could not enter into any type of contract with the state or state companies. The law was controversial because many parliamentary leaders also had well paid posts as directors of state companies, which they would be forced to give up, although they had not done so by the end of 2012. The new law defined a public servant as anyone in a public entity. The definition was very broad, covering office holders as well as members of provincial and municipal assemblies, normal civil servants at both national and municipal level, the military and police, and even employees of private contractors carrying out public functions. The law barred public servants from using their power or influence to provide any special help to themselves, their family, friends or anyone else – whether or not they were being paid for the help – and imposed restrictions on earning outside income. All public servants were now required to file annual asset and income declarations, and there would be a public register listing declarations made, although the declarations themselves would be secret and there were heavy penalties for publishing information from them, so they could not be checked by the public.

The core political problem was on-going **poverty**. Mozambique was a country with a high growth rate but it failed to convert growth into poverty reduction. A report issued on 11 May by the Africa Progress Panel, chaired by Kofi Annan, noted that Mozambique was one of the more unequal countries, with the top 10% of the population having an income 19 times that of the poorest 10%. The report cited Mozambique as the fifth fastest growing country in Africa, but pointed out that household survey evidence showed no decrease in national poverty and a marked increase in poverty in the central regions. It noted that Mozambique was a net importer of staple foods and that above 70% of working youth lived on less than $ 1.25 a day. Catholic bishops issued a statement after their 6-13 November conference that the poor were increasingly poor. The gains from natural resources were not contributing to the improvement of conditions for ordinary people. According to the World Bank 2013 World Development Report, published on 1 October, agricultural productivity and rural living standards had not improved. Productivity was low because of extremely rudimentary technologies. People did not migrate because there were no jobs to move to. The report also warned that social discontent appeared to be on the rise. In June, IMF Deputy Director for Africa Roger Nord referred in London to Mozambique as a country where the poor had benefited less from growth, and warned that this could raise social tension. An article in 'World Development' diagnosed households in rural Mozambique as "collectively trapped in generalized underdevelopment" with relative stagnation. Some speakers at the Frelimo 10th Congress on 23-28 September were also critical. Zacarias Kupela, former head of the Frelimo youth movement, pointed to the widening gap between rich and poor and warned that "future generations will reap the whirlwinds and cyclones". Graça Machel criticised self-serving party members who satisfied their egotistic, corrupt, ambitious and opportunist interest. Former president Luiz Lula of Brazil gave a talk on 19 November in Maputo, in which he warned against leaders who sought a third term. In another speech to local businesspeople he said, "No Mozambican can feel proud to open their car door and see a hungry person looking for something to eat in the rubbish." President Guebuza attacked his critics on 6 December in an extemporaneous speech to the congress of the Mozambique Workers Organisation ('Organização dos Trabalhadores de Moçambique'). According to the government daily 'Noticias' (23 November), Guebuza criticised "professional agitators acting in bad faith, and in the name of friendship with the poor [who are] alleging that only some people are benefitting from natural resources and from wealth". Some foreigners "come here and say the gap between the rich and poor is increasing". Speaking in Xai-Xai on 10 November, he said "only the lazy believe we cannot end poverty". Minimum wages were raised to $ 83 per month for agricultural workers and $ 90-$ 130 per month in most other sectors.

For ordinary people, the cost of living, unemployment and inflation were the three most serious problems, according to a secret **government survey**. The survey was carried out for government by a private agency in 2010 and was never published, but was leaked and posted on the website of the Public Integrity Centre. Corruption was only the seventh most serious issue. However, 74% of families considered corruption to be serious or very serious. More than half (52%) of the families interviewed admitted to paying bribes in order to obtain basic public services. Only 10% had used the court system, but half of those admitted paying bribes. Payment of bribes was most frequent in education (23%) and health (22%). The media scored very high marks for integrity.

Foreign Affairs

Mozambique was once one of the most aid-dependent countries in the world. The discovery of huge resources and the potential income in mineral and hydrocarbon revenues in a few years time was already changing both **government and donor attitudes**. Donors and the international financial institutions, the World Bank and IMF, had previously dominated policy formation in a quite brazen way. Donors remained anxious to continue to spend in Mozambique, but they began switching money away from general budget support to support for specific projects and ministries, where they could exercise more leverage. Meanwhile, the government announced the reversal of two donor-imposed policies. In December, ignoring earlier interventions by donors the government bought the remaining shares in Banco Nacional de Investimento to make it into a development bank and the agricultural marketing board was re-established. Two government-owned grain mills opened. A particular confrontation was with the United States Millennium Challenge Corporation (MCC), which had signed a five-year $ 507 m agreement in 2007. The MCC made extension of the contract conditional on a form of land privatisation, but the government refused and the contract was not renewed.

US President Barack Obama announced in Washington on 18 May that Mozambique had been chosen as one of six countries to benefit from a G8 programme to use the private sector to end hunger. The New Alliance for Food Security and Nutrition project used aid money to subsidise giant **agribusinesses** to take over large tracts of land. A similar programme called ProSavana was also launched, which involved Japanese aid to support Brazilian agribusinesses to take large tracts for soya production. But neither moved forward because of the difficulty of assembling large tracts of land. Under Mozambican law, occupiers had rights to the land and could not be moved for farming without agreement (although they could be moved for mines). The National Peasants Union ('União Nacional de Camponeses') issued a statement on 11 October in which it strongly condemned ProSavana as a top-down project being run in secret, which would make peasants landless and impoverish rural communities.

The death of **Malawi** president Bingu wa Mutharika in April and his replacement by Joyce Banda allowed the neighbours to repair relations. Banda visited Mozambique on 13-15 May. Mozambican President Armando Guebuza took over as **chair of SADC** in early August, and one of his first tasks was to meet Rwanda's President Paul Kagame in Kigali (Rwanda) on 28 August to deliver a message from the SADC heads of state summit in Maputo on 17-18 August, which accused Rwanda of interfering in the DRC by supporting the M23 rebels. The response came on 12 October, when Rwandan opposition figure and former director of the Rwandan Development Bank, Theogene Turatsinze. was murdered in Maputo. Speaking on behalf of SADC in October at the EU headquarters in Brussels (Belgium), Gubueza demanded that the deadline for signing the controversial **EPAs** should be extended from the end of 2014 for two years until 2016, to allow more time for negotiations. Guebuza also became head of the **CPLP** at a meeting in Maputo on 20 July. The CPLP continued to recognise Raimundo Pereira as president of Guinea Bissau, despite his overthrow by the military, and Guebuza again demanded Pereira's return. Former Mozambique president Joaquin Chissano had been SADC mediator on **Madagascar** since 2009 when Andry Rajoelina took over with military backing, but had failed to resolve the issue. An unsuccessful meeting with Rajoelina took place in Dar es Salaam (Tanzania) in December, when Chissano, and Tanzanian President Jakaya Kikwete unsuccessfully urged Rajoelina not to stand in the next presidential elections.

Socioeconomic Developments

Huge discoveries of coal and gas reserves resulted in a resource frenzy. More than $ 2.7 bn was already invested in exploration activities. The existence of **gas** along the coast of southern Inhambane province had been known since the 1960s. A pipeline had been built and the South African petrochemical company Sasol had been importing gas since 2004. But explorations off shore in the north of the country, on the border with Tanzania, discovered a huge gas reserve (although no oil), estimated at 100 trillion ft^3, worth an estimated $ 350 bn, from which Mozambique could hope to earn at least $ 1 bn per year from royalties alone, plus company profits and taxes. The government owned between 10% and 25% of all gas projects through Empresa Nacional de Hidrocarbonetos, the state oil and gas company. Gas would be liquefied and exported. Anadarko of the USA and ENI of Italy agreed to build a joint gas liquefaction plant that would be the second largest in the world (after Qatar), at an estimated cost of incredible $ 50 bn. The reserves were the third largest in Africa, after Algeria and Nigeria, and exploration continued.

Huge **coal** reserves were discovered in Tete and Niassa provinces. By 2015, Mozambique could produce 100 m tonnes per year (m t/y) of coal, half of it high-quality coking coal, from which Mozambique could earn at least $ 300 m per year in royalties. Two companies began producing and two more expected to start in 2013, but the coal mines were 600 km to 800 km from the sea and the current rail capacity was just 6 m t/y, in part because of the World Bank fiasco with the **Sena railway line**. In a damning evaluation, the World Bank admitted responsibility for the failure to complete upgrading of the line from the Tete coal mines to the port of Beira, which should have been finished in 2009. The $ 110 m World Bank loan was conditional on Mozambique Railways ('Caminhos de Ferro de Moçambique'; CFM) retrenching 13,600 experienced staff, and on the structure of the central railways being a concession in which the concessionaire had 51% of the shares and CFM 49%, which left CFM without influence. The failure of the project was blamed on this Bank-imposed structure. The Bank gave the contract to an Indian Rites and Ircon consortium, which allegedly lacked experience and competence. Repeated and valid complaints by CFM and the government were ignored. Finally, the report admitted that Mozambique not only had to repay the loan for the unsatisfactory project, but also had to find money to complete the work and to pay an extra $ 20 m to the contractor, which was considered unjustified because of ineffective Bank monitoring.

The Brazilian company Vale began building an entirely **new railway line** from its mines in Tete across Malawi and back into Mozambique to the port of Nacala. Rio Tinto proposed a new railway line to a new offshore floating terminal north of Quelimane. A third railway line was also suggested, entirely within Mozambique, from Tete to Nacala, but there would not be adequate export capacity until 2015-2017. Meanwhile, the companies were proposing **thermal power stations** in Tete to burn low quality coal not worth exporting to produce 6,400 MW in three power stations. However, South Africa, the most likely buyer of energy, showed no interest. The low-grade coal was therefore likely to pile up for the next few years. Mozambique took over the final 15% of the Cahora Bassa dam under a complex deal agreed on 9 April. Mozambique paid $ 42 m for 7.5% and would trade shares in the proposed central-south power line for the other 7.5%.

Membership in the **Extractive Industries Transparency Initiative** (EITI) was approved on 26 October, after having been rejected once. This meant that all payments by mining companies were now public, although contracts and the way payments were calculated remained secret. Royalties were set at 6% of the sale price for gas and 3% for coal, but the government was to accept company declarations of the sale price. The minerals ministry trained 4,000 people, but their training was largely dependent on the mining and hydrocarbon companies, so there were growing civil society complaints that they would not become independent of the industry.

The **tax authorities** began informal negotiations to fill loopholes. When Cove Energy, which owned 8.5% of one of the gas blocks, was sold to PTT of Thailand for $ 1.9 bn, it was agreed that $ 175 m would be paid to the government. At the end of the year, parliament passed a new tax law which set a 32% capital gains tax on sales or transfers of mineral or hydrocarbon assets in Mozambique. On 11 December, the government announced for the first time that 2.8% of mineral revenues would be spent in local communities, and that the first $ 1 m would go to communities affected by coal mining in Moatize, Tete, and by heavy sands mining in Moma, Nampula province.

Meanwhile the coal mining companies continued to have **problems with local communities**. On 10 January, more than 500 families blocked the road and railway line in Tete to protest about their resettlement by the Brazilian company Vale from an area that was to become an opencast mine. Riot police were called and 14 people were arrested. But then-governor Alberto Vaquina later admitted that the community's claims were valid – new houses had been badly built and the community had not been given the promised water and agricultural support. Two weeks later, Vale was given the annual Public Eye award for the worst corporate conduct by activists at the World Economic Forum in Davos (Switzerland). Minerals Minister Esperança Bias took the remarkable decision to have a ministry coordinating council meeting in the resettlement village of Cateme in August, with ministry staff staying with families in the resettlement houses. It became clear that the problems that had caused the demonstration in January had not been solved. The government bought 5% of Vale interests for $ 21 m under the original contract, which promised 10% to Mozambican investors.

The IMF declared in a statement on 21 December that Mozambique’s **economic performance** was remarkable and that the prudent execution of the budget had contributed to a judicious policy mix that fostered economic stability despite global uncertainty. Inflation was just 2%, well under the target of 5.6%. The IMF reported that GDP had increased as estimated by 7.5%. FDI was 17% of GDP, compared with 5% in 2009. During the year, the Mozambican metical (MZN) remained stable at MZN 3.5 to the South African rand; this was important to prevent riots, since many key goods in Maputo were imported from South Africa. By contrast, the metical fell 9.7% in relation to the US dollar to MZN 29.6 to $ 1.

Reflecting the low inflation, the base **interest rate** (paid by commercial banks to borrow from the central bank) was cut from 15% to 10.5% by late 2012. Despite the sharp fall in both inflation and central bank interest rates, private banks continued to charge more than 20% interest – double the central bank rate. Mohanad Rafik, chair of the government’s Economic Recovery Support Fund (FARE), accused microfinance institutions of usury. He said FARE lent at 8%-12% interest to microfinance institutions but they lent on to rural producers at 30%-60% interest. **Banks** were still regionally concentrated. There were 470 branches of commercial banks, of which 218 were in Maputo city and province. Of the 128 districts in Mozambique, only 58 had banks and there were banks in only three of the 15 districts in Niassa, and four of the 16 districts in the neighbouring province of Cabo Delgado. The picture was even worse with regard to micro-credit. Of the 182 micro-credit operators in the country, 130 were in Maputo city and province.

Other economic activities included two major projects by China in Maputo, a $ 1 bn bridge to Katembe (the part of Maputo on the other side of the bay, currently reached by ferry) and toll road to South Africa, and a $ 315 m ring road around Maputo based on a largely colonial plan. The EU signed a new fisheries agreement, allowing 75 boats to catch 460,000 tonnes per year, mostly of tuna. Biofuel production remained stalled, except for ethanol from sugar, so the government suspended plans to require 10% ethanol in petrol and 3% biofuel in diesel.

Data released for 2011 showed how overstretched the **education system** was, and its low quality. There were nearly 6 m children in school and 109,000 teachers. Of 248,000 people employed in the public sector, 44% were teachers. But in primary school, there were 63 pupils for each teacher. Pass rates were low. Of pupils who entered the fifth (final) year of primary school, only 63% passed – 22% failed and 14% dropped out. Pass rates in secondary school were 64% for tenth grade and 52% for twelfth grade. The Ministry of Education admitted that no well-trained teachers from the Pedagogic University had been hired during the past three years because graduates were too expensive, and that it was cheaper to pay poorly trained teachers for extra sessions.

Other **statistics** showed that Mozambique had one of the higher traffic accident death rates in the world; in the first half of 2012, 730 people were killed on the road. Mozambique had 33 mobile telephones for every 100 people. Kidnappings for ransom continued in the Asian business community. Businessman Momed Ayoob was gunned down on the street on 20 April. In 2010, he had been arrested in Swaziland carrying $ 2.7 m in cash, and had been accused in the Mozambican press of being involved in drug dealing.

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