“Mozambique” Sucess Story ? – Bretton Woods Backlash in Mozambique

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“Existing social inequalities and regional asymmetry could endanger the climate of peace, calm and social harmony that is the basic prerequisite for balanced and self-sustaining socio-economic development,” Prime Minister Pascoal Mocumbi warned donors on 17 May 1997 at the Paris Consultative Group meeting.

In an otherwise upbeat and self-congratulatory speech, it was a harsh and undiplomatic warning that all is not well, and was as close as Dr. Mocumbi could safely go toward criticizing the International Monetary Fund’s (IMF) continued neo-liberal policies in Mozambique.

The meeting showed growing awareness that Mozambique may not be the Bretton Woods success story that is so widely touted. Three interconnected issues were on the table, explicitly or implicitly :

1. IMF stabilization has been squeezing Mozambique too hard, preventing essential reconstruction and encouraging inefficiency and corruption.

2. Adjustment has benefited only the better off in Maputo ; the poor and those outside the capital have lost out, as income gaps widen. Thus the threats to peace cited by Mocumbi.

3. The Bretton Woods institutions work in the interests of trans-national capital and against domestic capital.

Loosening the stranglehold No public statements have been made, but published and internal documents show that the IMF has responded to donor and World Bank pressure and slightly loosened its grip on Mozambique. The IMF had prohibited Mozambique from spending aid which was actually on offer to rebuild schools, roads and health posts and to restart the economy ; publicly the IMF denied this, but donors became increasingly outspoken and even issued a public statement in 1995.

Aid spending is limited in two ways. One target Mozambique agreed to with the IMF is “deficit before grants.” In other words, deficit targets must be met before grants can be made available. Since the government cannot run an overall deficit, “deficit before grants” must be less than total grants, and thus is effectively the amount of aid that the government can spend. London-based experts on the IMF in Africa say that the Fund is being much harder on Mozambique than on many other African countries, such as Uganda, where the IMF does not use deficit before grant as a cap on aid.

The second key is the requirement for an increase in “international reserves” - in effect, dollars in the bank. These two are linked, because donors have in recent years offered Mozambique more aid than the IMF would allow it to spend, and the IMF has insisted that this extra aid simply be kept in the bank as extra reserves. The increase in foreign reserves is accounted for by cuts in spending on war repairs. Even Jeffrey Sachs, the very conservative director of the Harvard Institute for International Development, wrote that “there is no clear need for a rapid and substantial build-up of foreign exchange reserves” in Mozambique.

For more than two years, the donor community has been pushing for a more expansionary policy, which would allow more money for investment and concentrate less on simply curbing spending. The first public step was the October 1995 statement by donors criticizing the IMF. In October 1996 the World Bank’s vice-president for Africa, Callisto Madavo, told a Maputo press conference that the Bank would press this in negotiating the annual joint IMF-World Bank “Mozambique Policy Framework Paper” (PFP).

The Bank stuck to its word, and when the PFP was issued on 8 May 1997, it really did allow a substantial increase in spending. Deficit before grant rises more than $90 million this year, with a increase of more than $50 million in capital expenditure.

But, in effect, donors who claimed they wanted to give more to Mozambique have been told to “put up or shut up,” because foreign reserves will still have to increase by more than $90 million - less than last year, but still substantial - and this must be funded by donors.

The table below shows what has happened over the past three years, and what the IMF demands are for the next two.

IMF controlled amounts ($ million)

Deficit Capital Total before expen- foreign grant diture reserves

Actual :

1994: 434 358 127

1995: 310 319 160

1996: 268 298 290

Programme :

1997: 360 353 371

1998: 390 379 462

What the table shows is that the amount of aid the government could use fell sharply between 1994 and 1996 - by $166 million per year in just two years. This caused a fall in capital expenditure of $60 million per year - which meant war damaged roads, schools and health posts in rural areas were not repaired. The donors were still willing to give money, so the IMF insisted it be put in the bank.

The permitted increase in capital expenditure was matched by an unexpected increase in current spending which will be used to increase civil service salaries. IMF spending curbs had forced the salaries of more than half of all civil servants to below the poverty line, and this was widely seen as a motor behind corruption. Low paid staff took bribes and stole time and equipment in order to feed their families - corruption through need - but then they could not denounce their superiors who were corrupt through greed. This was recognized by Planning and Finance Minister Tomaz Salomao when he warned donors in Paris that the elimination of corruption is dependent on “an increase in salaries to levels which give dignity to the civil servant and meet their cost of living.” Now this will be permitted.

Only in Maputo Easing the IMF stranglehold which threatened to suffocate Mozambique only tackles part of the problem. Mocumbi pointed to the danger of class and regional differences, both of which are widening. In an unrestricted free market, resources normally flow to the richest people and the most developed areas. The overwhelming emphasis on the market has concentrated development in Maputo, at the expense of the north and rural areas in general. All of the biggest proposed or agreed projects - including an iron and steel plant, a huge aluminium smelter, Mozambique’s largest tourist development, an export processing zone, and a new toll road - are concentrated in the tiny World Bank-promoted “Maputo corridor” which links Maputo to South Africa.

Expensive restaurants continue to open in Maputo and survive on Maputo’s new rich rather than tourists, although there is also a boom in tourist facilities with several new hotels under construction or just open.

Visiting IMF and World Bank staff who only frequent Maputo’s cement city do, indeed, see a vision of growth, expansion and prosperity. In parallel there is a growth of informal markets and street trading, as Maputo’s poor struggle to eke out a living, and a growth of violent crime - but this is seen only through the car window by those who talk of Mozambique’s success story.

Keeping domestic capital down The concentration of investment in Maputo is not accidental. The iron, steel and aluminium plants would more sensibly be sited in Beira. Putting them in Maputo means that foreign managers can drive (using the new toll road) or fly in from South Africa for the day - or stay for the weekend in the new beachfront resorts. It seems that foreign investors are prepared to spend substantial amounts of extra money, for example for an extra 1000 km of power line for the aluminium plant, in order to make it easy to pop back to Jo’burg.

And all of the emphasis of the Bretton Woods institutions (BWIs) has been to ensure the entry of foreign capital and the development of Johannesburg as a sub-metropole. World Bank bidding procedures make it very difficult for Mozambican firms to bid - they cannot get credit (due to IMF credit ceilings), they cannot hire requisite skilled staff (because the international agencies pay more), and the BWIs prevent Mozambique from giving any support to domestic industry. So it is foreign contractors who win the tenders for the toll road and for World Bank funded road rehabilitation. An Indian company won the contract for school text books, when local firms could have done a better job.

Privatization has also been rushed through at record speed to ensure that the biggest state companies go to trans-national corporations : cement to the Portuguese, beer to South Africa, etc.

The IMF recognizes the growing backlash against privatization, with its loss of jobs and reduction of local control. In its 9 June 1997 report on Mozambique’s request for an Enhanced Structural Adjustment Facility (i.e. an IMF loan), the Fund sets as one of its “structural performance criteria” that “the momentum of privatization is not lost in the face of political opposition.” In other words, democracy cannot extend to privatization.

When the cashew processing industry was unexpectedly bought by domestic trading capital instead of foreign firms, the World Bank within months published a previously secret report calling for the cashew processing industry to be closed down. It was a stark warning to domestic business not to get above its station. Since then, all major privatizations have involved Mozambicans only as junior partners of foreign firms.

Naturally, the Maputo corridor is dominated by South African firms, acting on their own or as agents for TNCs.

The domestic business sector hardly has clean hands ; it has been involved in drug and currency dealing and profiteering. Nevertheless, it has won growing national support, particularly from the press and from trade unions which would rather deal with domestic business interests.

One factor which has put domestic business, and particularly small business, at a disadvantage is the lack of capital. The IMF imposed particularly harsh credit limits, which meant banks could give so few loans that the simply gave the easiest ones - to Maputo traders. There were no loans for rural trade, and few loans for the productive sector (which needed longer term loans and not just 90-day trade credit). This led to a major marketing crisis last year, when peasants produced a bumper crop and no one bought it.

An allied problem was that many small Mozambican business people had their factories, shops, farms and lorries destroyed in the war. In some cases they still owed loans on that equipment. No money was available to get started after the war. In a few areas, particularly tourism, tiny South African business people were able to move in because they could get loans in South Africa. Again, Bretton Woods policy put Mozambican capital at a disadvantage.

Small business in rural areas face two other problems. One is that five years after the end of the war, many destroyed rural roads and bridges have not been repaired. This is due to World Bank policy on road repair which puts the stress on main roads used by foreign businesses which are being upgraded and rebuilt to high standards by foreign contractors ; this is linked to the IMF cap on spending, which means that if main roads are rebuilt, minor rural roads cannot be.

The final problem is the Bretton Woods obsessive opposition to agricultural marketing boards, introduced throughout the region in the colonial era and abolished now. They were wholesale (and sometimes retail) buyers of food crops such as maize, and also maintained large stockpiles ; now, it is the peasants and traders who are expected to maintain any supplies, but with the shortage of credit traders will not buy maize if they cannot sell it on. In many areas there was no commerce at all last season, because traders could not work profitably with no credit and no marketing board.

It is also important to remark that with an El Niño triggered drought forecast for 1997/98, there are no food reserves in Mozambique because the Bretton Woods institutions consider it poor practice to keep reserves, as was common in the past. Instead, they argue it makes more economic sense to buy on the world market in poor years. This is a bias toward the big international grain traders and against local business. But with IMF spending caps, it also means that Mozambique will again have to take money away from schools and health posts to import maize.

Slight easing for rural business Prime Minister Mocumbi summarized all of these problems in his May Paris speech when he noted that “the national private business class, which is still nascent and lacking in financial resources, has to an extent been penalized by the restrictive policies that help to slow down inflation, particularly in the decapitalized rural areas.”

Under heavy donor pressure, the IMF has backed off on its most dogmatic free market policies. Previously it had argued that the market was the only “efficient” way to allocate credit. This year the

IMF allowed Mozambique to set up three special funds which will direct money to disadvantaged parts of the domestic private sector.

* One special fund will allow the government to use receipts from privatization (which the IMF had previously said had to remain in the bank and could not be used) combined with donor and NGO funds to create an Economic Rehabilitation Fund (FARE) to provide credit for small rural enterprises.

* The second fund will be used to pay off debts incurred by private firms for assets destroyed during the war. These debts make it impossible for many small traders to take new loans.

* The third fund will assist the rural commercial network.

“Grievances about the economy” Although Mozambique is touted by the Bretton Woods institutions as one of its few African “success” stories, the easing off - limited though it may be - by the IMF, reflects pressure from donors and those more perceptive of the international agencies who realize that success cannot be measured by sitting beside the pool at the Hotel Polana in Maputo.

A larger question remains, however. Are such minor changes of direction really likely to be enough to blunt the relevance of the kind of stark warnings about current policies that are rife in Mozambique ? Consider one of the most recent of such warnings, from the Refugee Studies Programme in Oxford : that body’s careful and insightful study of “The Reintegration of Ex-combatants in Mozambique” - written by Chris Dolan and Jessica Schafer and issued in June of this year - points to “a lack of visible reconstruction efforts in many areas.” It also warns that “rural areas are thus trapped in a vicious circle : lack of roads leads to lack of market opportunities which leads to lack of cash and in turn inability to buy consumer goods, resulting in reluctance on the part of the rural population to produce agricultural surplus and thus economic stagnation.”

“`Democracy’ did bring elections but it brought no great change in the standard of living of the majority. Disappointment on this account is now strongly expressed in all quarters,” conclude Dolan and Schafer. This means, among other things, that demobilized soldiers who have returned to the countryside, often with their guns, are increasingly dissatisfied. “It is not encouraging to hear the high level of frustration and latent violence just below the surface ... [T]he widespread persistence of grievances about the economy does not bode well for the future.”

Joseph Hanlon

P.S.

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* Joseph Hanlon is a writer on southern Africa and the author of “Peace Without Profit : How the IMF Blocks Rebuilding in Mozambique.” (Heinemann, 1996).