



Meeting Summary

Mozambique: Development Failure or Donor Success?

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Chair: Myles Wickstead, Head of the Secretariat to the
Commission for Africa

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Joseph Hanlon:

The author started off with a presentation of photos depicting scenes along a train track in Nampula Province. He highlighted that the trains passing through offer the most viable market in the area and no real alternatives to the trains exist for entrepreneurs and vendors. This offers the following paradox: people are poor, despite it being a good agricultural area with fertile soil. The author mentioned that while there are also other needs (e.g. basic farming technology, seeds, credit, etc.) the most urgent need is access to markets.

Mozambique is seen as a success story, with high growth rates and expansion of education for the population. This is despite the very high numbers of students and other difficulties, and most importantly despite the fact that after students finish their education there are hardly any options for them. An informant was quoted as saying: "our children go to school but our pockets are still empty."

Hanlon referred to a recent self-evaluation report (published in February) of the local Mozambican African Peer Review Mechanism (MARP) Forum, which stated that Mozambique's development model is creating a wide moat separating the rich from the poor and is creating serious frustrations in the group that is excluded, which could lead to social convulsions in the medium term. Hanlon also highlighted the credentials of the forum and that it is a well established body. The MARP Forum is a joint government-civil society body of 58 people, including three governors, the governor of the Bank of Mozambique, representatives of eight parliamentary commissions, civil society, the private sector, and members of the Agenda 2025 commission.

In particular Hanlon mentioned that the MARP report comes to the conclusion that the principle beneficiaries of growth have been a tiny group and the most credible indicators show an increase in absolute terms in the number of people below the minimum subsistence line. This assertion is in direct opposition to government and donor claims of reductions in poverty.

Hanlon argued that this shows that the 'Washington Consensus' has failed, and with it the assumption that FDI can lift people out of poverty. He mentioned large-scale projects in the aluminium, gas, titanium and coal industries, and highlighted that these offer few or no jobs and that they do not contribute to government tax revenue due to tax breaks.

In response to these failures the Government of Mozambique (GoM) is providing money (7m MZN) directly to the districts, but according to Hanlon, people are too poor. He argued that the funds which are intended to provide loans to grow food and set up businesses cannot be repaid by the debtors

due to a lack of markets. Furthermore, Hanlon argued that markets do not exist because the general population is too poor - according to figures, 40% of the population of Mozambique lives on 15p per person per week. Hanlon referred to this situation as the poverty trap.

According to the author, the state (GoM) needs to intervene to break this poverty trap, through agricultural and rural development. This approach is challenged by donors and the 'Washington Consensus'. These views do not favour rural or agricultural development. Taking into context Mozambique's high donor dependence (according to Hanlon nearly 50% of the state budget is made of donor funds), the author posits the question whether the GoM can determine its own development policy or whether it must follow the donors prerogative.

When asked by the chair about small enterprises, Hanlon highlighted that there is no support for small enterprises and in particular small commercial farming in Mozambique. According to the author this is largely due to IMF policy that small enterprises should be commercially competitive without government subsidies, and that Mozambique should not have a local development bank (for that reason). Hanlon mentioned that the cashew industry had to be supported 'in secret' for the same reason. This is in opposition to other countries in the region – for example Malawi, where fertilizer subsidy programs are allowed to exist.

In the conclusion to his opening remarks, Hanlon re-iterated the point that in his view, Mozambique's industrialization is through agriculture, and that the major problem is a lack of demand for agricultural goods and products due to poverty.

HE António Gumende:

The High Commissioner (HC) started off with highlighting the fact that it is positive to raise the debate on Mozambique, and that it is a daunting task to comment in the midst of such a knowledgeable panel. He finds that usually there is a lack of evidence based discussion.

Gumende found that the authors of the book have used data and analysis from the Mozambique National Human Development Report extensively in their book, but have failed to include this reference in their index or bibliography. He suggested that this was by design in order to disguise some of the more positive findings of that report.

The HC also commented on the face of the book which depicts bicycles. Whereas bicycles are equated with progress, in Mozambique bicycles were in the past associated with migrants to South Africa, or associates of the colonial authorities. He suggested that mobile phones would have been a more appropriate indicator for progress and disposable income, given that around 20% of the population of Mozambique subscribe to mobile phone services.

Gumende also suggested that the story in the book could also be seen from a different perspective, that despite the lack of credit, irrigation, agricultural technology, etc., people still *can* afford bicycles. He suggested that this was real progress and reminded the audience that poverty in Mozambique is 'real', with 54% of the population living below the poverty line.

In terms of methodology, the HC found that the authors excluded conventional development indices, which include for example indicators on the access to clean water, but also include economic indicators. He also mentioned that Mozambique is very fragmented in its development with the north being very agriculturally dominated, the south has strong industries.

Gumende also deplored the exclusion from the book, of Mozambican voices and indigenous processes that lead to the National Human Development Index in Mozambique. This was a process led by Mozambicans, and sought to seek the impact growth actually has on the living standards of the population. He suggested that the Author's position was predictably against the Bretton Woods institutions and donors and that it overemphasized negative aspects. In the process Mozambicans appear and are portrayed as 'helpless'. Gumende challenged this by mentioning the revival of the sugar industry in Mozambique which included crucial initiatives from Mozambican private sector actors.

In terms of style, Gumende suggests that the mix of journalistic and academic style is not helpful. He deplores the inclusion of unfounded and unfair allegations and suggests that this damages the credibility of the authors and their message.

The HC took up the point of corruption which is also mentioned in the book, and suggested that it was important to contextualise this phenomenon. He stressed that Mozambican participation and ownership in the most profitable sectors such as aluminium, telecommunications, energy, and banking, is not high.

On the case of Banks, the HC mentioned that even the case of the Banco Austral and the assassination of Siba-Siba Macuacua should be seen in the

larger frame of reference, where there was a clear failure of banking supervision. He mentioned that the Banking scandal was a case of moral hazard and highlighted that Siba-Siba was also the head of the supervision department.

In his concluding remarks, Gumende stated that GoM should also increase supply through incentives (not only demand), and suggested that actually demand was already existent and merely needed to be captured by local producers. He mentioned poultry and vegetables in this respect.

As a side-note the HC was bemused to find that many sponsors of the book are the same as the 'donors' the authors argue against and suggest that Mozambique should reduce its dependence on.

Simon Maxwell:

The former head of ODI enjoyed the book and suggested that this was because of the style – combining academic and journalistic genres. He was kept interested and enjoyed the various life-stories included in the book.

Maxwell however also stressed that there were some important questions left unanswered in the book. While Mozambique did very well on post-civil war recovery, it has not yet developed to the level of Singapore (as an example). The important yet unanswered question is *how* a country achieves high development (like Singapore).

Maxwell suggested the cashew industry as an iconography of Mozambique. Mozambique had a very strong cashew growing industry, and attempted to develop its processing capacity in order to add value in the country. Cashew nuts are difficult to process and very labour intensive, and India, as Mozambique's major competitor in the cashew nut processing industry, would have suffered from export taxes on Mozambican Cashew in order to protect Mozambique's fledgling industry. This policy was opposed by the World Bank on the basis of competition law. Maxwell highlighted, that, ironically due to very accessible Indian technology, the Mozambican Cashew processing industry was later able to gain competitiveness without protectionist measures.

Maxwell highlighted that the key question for all raw material exporting countries in Africa (cashew, cocoa, cotton, etc.), is how to add value in the country of origin. According to the speaker it may or may not be a good idea to develop this capacity locally, for a global market. This question however is not answered in the book. Maxwell suggested that in a globally integrated

economy, with a global division of labour, there are no longer single products from single countries. He suggested that industrial development as posited in the book is 'lumpy' in product, space and time.

He mentioned that apparently the best processing capacity is in India and not Africa. Whether processing should also be done in Mozambique has to be answered. Related to this is the need to answer how the resources needed for funding a national Cashew processing industry should be raised. He questioned whether farmers/producers should be expected to subsidize the nascent industry, or whether this should be done through general tax increases, or regional development initiatives. These issues debates, according to Maxwell, are not dealt with enough in the book, and the book suffers from a lack of hypothetical testing.

As a final point, Maxwell commented on the question raised by the authors, on whether Mozambique should be allowed to 'make its own mistakes' in the development of the country, whether GoM should heed advice, and what the role of 'donors' is. Maxwell mentioned that in UNCTAD debates, a similar debate is being waged and that some voices argue for letting governments make their own mistakes to learn the lessons (e.g. by imposing tariffs). Maxwell highlighted the urgent need for a debate amongst the stakeholders who are committed to the development of Mozambique, of how to best achieve this.

Maxwell also mentioned DFID's newfound interest in growth which manifests itself for instance in the large scale support for infrastructure projects. He suggests that DFID priorities are swinging back from a previous focus which was more on human development (and social sectors). Maxwell suggests that a balance is needed between the two.

In conclusion to his remarks, Maxwell mentioned that the book may not be right in every aspect, but that it certainly made him think. There are still doubts in his mind as to the right strategy to proceed from a post-war recovery to a long-term transformation. Despite this, he encouraged the audience to enjoy the book and 'read between the lines'.

Q & A:

Q: Does growth equal development? And do people benefit from it? How can demand be stimulated?

HE Gumede: It was important to maintain a realistic outlook, and Mozambique only generates 17% of its budget through taxes. The reality is that 'donors' are a major aspect of Mozambican development and the relationship with donors has to be managed. Sometimes advice is not helpful, but the most important thing is that lessons are learned by Mozambique. An example can be drawn from the sugar industry, where actions and strategies were informed by lessons learned through the Cashew episode. This was used as leverage by GoM in the negotiations with donors, and now Mozambique is a major producer of sugar in the region.

Q: Can you clarify your comments in regard to the assassination of Siba-Siba Macuacua? It was unclear what was to be gained by highlighting Siba-Siba's position in the bank.

HE Gumede: I wanted to highlight that the assassination was a case of systemic and supervisory failure, and it was not helpful to discuss 'persons'. What is needed is to dissociate the forces from specific individuals and to prevent this from happening in the future. Aside from a person being murdered, the Mozambican tax payers also suffered as they had to bail out the bank in question in Mozambique's own case of toxic assets and government bail-out.

At the time of the cashew negotiations there was a vibrant debate between industrialists advocating protectionist measures, and farmers and others who objected to subsidies being shouldered by producers and defended free trade. It would be a mistake to assume that there was a single consensual view from Mozambique.

Q: What impact will the global economic crisis have on Mozambique? Will this influence the country's stability in the future?

HE Gumede: Mozambique is integrated into the southern African market, and impacts in the region will have effects on Mozambique too. In particular if South Africa suffers, Mozambique suffers too. In addition Mozambique is

exposed to the crisis indirectly through the fall of commodity prices – especially aluminium, Mozambique's largest export. A MOZAL smelter social program into which 1% of profits used to flow has already been affected. Other impacts include the cancellation or moth-balling of investment projects, for instance the BHP titanium sands project in Niassa province.

Mozambique also continues to monitor the impact of the crisis on foreign aid flows. In the short term these are expected to stay stable but in the medium to long – term there is potential cause for concern. Mozambique is cautiously eyeing the performance of Ireland (a major donor to Mozambique) as its economy is hit hard in the crisis.

Q: Is there scope for commercial farming, or a 'green revolution'?

HE Gumede: Commercial agriculture in Mozambique is still to evolve. Part of the story here is that there exists a different land tenure system in Mozambique than in some other African countries. Because Mozambique operates a lease-hold system, banks do not (yet) accept land as collateral for loans. In the short to medium term, the priority for GoM is to increase the productivity of small scale farmers through basic technology provision and access to markets, while at the same time stimulating internal demand.

Q: There is a need to be realistic - the war was long and the peace short.

HE Gumede: Mozambique is still in recovery, and some sectors are not yet at the levels they were at in 1975 (the year of independence).

Q: What are the prospects for Mozambique to recognize Kosovo as a sovereign state?

HE Gumede: Mozambique will continue the developments and evolution of events, and will take a decision based on international consensus. There is as of yet no consensus even amongst EU member states.

Q: Can the international donors' roles and efforts in consolidating democracy in Mozambique and in specific the donor support to the executive vis-à-vis their lack of support to the judiciary and legislative branches of government be seen as an issue?

Hanlon: DFID was 10 years behind the curve and people in Mozambique are too poor to use even the existing infrastructure. What is ultimately needed is to provide different kind of support to different kind of people to enable them to use the existing infrastructure. The basic questions of the book are: why isn't there enough growth? Why is the income gap widening? And ultimately why are the poor getting poorer? These facts are a potential source of future conflict, especially if exacerbated through the impacts of the global financial crisis on Mozambique.