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India offers \$500 million credit line

Indian Prime Minister Manmohan Singh on 30 September announced a line of credit for Mozambique of \$500 million to finance infrastructure, agriculture and energy projects. The announcement came after official talks with a Mozambican delegation headed by President Armando Guebuza, who arrived in New Delhi on 29 September for a five-day state visit.

Prime Minister Singh also announced that the two countries have set a target of a billion dollars a year for bilateral trade to be reached within the next three years. He was speaking after he and President Guebuza had witnessed the signing by Mozambican and Indian ministers of an agreement on ending double taxation and preventing tax evasion, and memoranda of understanding on mineral resources and on promoting micro, small and medium enterprises.

The two leaders told reporters that political and diplomatic ties between Mozambique and India are “excellent”, and that they are now particularly interested in expanding commercial relations.

Prime Minister Singh said he was convinced that with President Guebuza’s visit there would be a great increase in bilateral cooperation and in commercial exchanges. He noted that India has been supporting the Mozambican people ever since the struggle for independence from Portuguese colonial rule.

President Guebuza said he regarded this visit as opening a new page in relations of friendship and cooperation that are already at an excellent level. He added that the two countries have also decided to cooperate in coordinating naval patrol operations in the Indian Ocean against the increased threat of piracy.

Pirates based in Somali have recently struck many hundreds of kilometres to the south of Somalia, with some raids taking place off the Tanzanian coast.

President Guebuza noted that what were once regarded as safe maritime routes across the Indian Ocean have been endangered by pirate actions, making it imperative for India and Mozambique to coordinate plans for their own protection and security.

India offers to train agronomists

On 1 October, President Guebuza visited the Indian Agricultural Research Institute (IARI) in New Delhi, which declared its willingness to train Mozambican agronomy students, who could then help guarantee the success of the Green Revolution advocated by the Mozambican government.

On his tour of the 75 year old Institute, President Guebuza was shown how its scientists carry out their research and transmit their knowledge to the Indian and foreign students attending the Institute.

Research undertaken at the Institute is credited with dramatically increasing crop yields in India. This year’s grain harvest of 235 million tonnes was seven per cent higher than the previous year. IARI officials say that the constant increase in Indian harvests is due to investment in research and in improved seeds.

President Guebuza also took part in a seminar attended by Gujerat businessmen and the more than 40 Mozambican businessmen whom the President included on his delegation.

Addressing the seminar, President Guebuza invited Indian businesses to invest in Mozambique. They would contribute to the development of the country, and at the same time take advantage of the immense potential that Mozambique has to offer in various spheres.

They would not be pioneers, President Guebuza added, pointing out that there is a long established Indian community in Mozambique, and that more than 80 per cent of Mozambicans of Indian origin are the descendants of immigrants from Gujerat.

Government aims for 7.2 per cent growth in 2011

The Mozambican Council of Ministers (Cabinet) on 21 September approved the draft Economic and Social Plan (PES) and state budget for 2011, which will be submitted to the country's parliament, the Assembly of the Republic, for approval.

The government spokesperson, Deputy Justice Minister Alberto Nkutumula, told reporters that the plan sets a target of 7.2 per cent for economic growth in 2011. Commodity exports are expected to reach slightly more than \$2.4 billion, which will be an increase of 15 per cent on the 2009 figure.

The government hopes to keep inflation in 2011 at around eight per cent.

Nkutumula added that the plan also sets as a goal "continuing to create job opportunities and an environment favourable to private investment and the development of the national business class, while safeguarding correct management of the environment".

The draft 2011 budget envisages total revenue for the year of 73.27 billion meticaís (slightly more than \$2 billion) and public expenditure of 128.8 billion meticaís. This leaves a deficit before grants of 54.4 billion meticaís.

The 2010 budget, as passed by parliament, envisaged revenue of 57.43 billion meticaís and expenditure of 117.98 billion meticaís, leaving a deficit of 60.5 billion meticaís. Thus, the planned deficit before grants for 2011 is considerably smaller than the 2010 figure. Whereas in 2010, grants and loans were expected to cover over 51 per cent of expenditure, the projected figure for 2011 falls to 42 per cent.

The budget, Nkutumula said, was intended to maintain macro-economic stability, and to continue poverty reduction activities. The mechanisms for implementing public expenditure "should not have a negative impact on the general level of prices or on the real effective exchange rate".

He added that the budget would "strengthen the subsidies and social support, as a measure to mitigate the recent conjunctural shocks".

Exports grow by over ten per cent

Due to a recovery in international demand, Mozambican exports grew by 10.9 per cent in the first half of the year, compared with the same period in 2009. According to data released by the Bank of Mozambique on 22 September, total exports rose in value from \$910 million in January-June 2009 to \$1,009 million in the first six months of 2010.

Most of this increase is due to a recovery in the world market price of aluminium, since the ingots produced at the Mozal aluminium smelter on the outskirts of Maputo remain the largest export. Exports from Mozal generated \$373.4 million in the first half of 2009, which rose to \$561.3 million in the first half of

2010. Aluminium accounted for 55.6 per cent of all export earnings in this period.

The second most important export was electricity from the Cahora Bassa dam on the Zambezi. The increase was 11.8 per cent – from \$126.9 million to \$140.8 million, due to a rise in the Cahora Bassa tariff. The amount of power exported fell – to South Africa by 3.4 per cent and to Zimbabwe by 14.5 per cent.

The export of natural gas to South Africa increased by 14.4 per cent, up from \$51.6 to \$59 million.

There was a huge rise in exports of ilmenite from the dredge mine in the northern district of Moma, operated by the Irish company Kenmare. Ilmenite earned \$15.5 million in the first six months of 2009, and \$42.8 million in January-June this year.

The figures show how Mozambican trade is dominated by just a handful of commodities. Aluminium, electricity, gas and ilmenite contribute almost 80 per cent of the country's export earnings.

Some of the traditional agriculture and fisheries exports are in decline. Thus, only \$19.4 million worth of prawns were exported, compared with \$30 million in the first half of 2009, a fall of 35.3 per cent.

Tobacco exports fell by three per cent, from \$46.4 million to \$45 million. Sugar exports crashed from \$14.6 to \$4 million because there were no exports to the European Union in the first half of this year, a situation likely to be reversed in the second half.

There was an improvement in cashew exports – from \$6.2 to \$6.4 million in the case of processed cashew kernels, and from \$6.1 to \$10.7 million for unprocessed nuts.

The country's import bill fell by 4.3 per cent – from \$1,620.2 million in the first half of 2009 to \$1,550.4 million this year. There was a 48.7 per cent drop in the import of grain, from \$129.9 to \$66.6 million, partly due to an easing of international grain prices, and partly to a rise in production, particularly of maize.

There was also a 10.5 per cent fall in the import of vehicles, and a 16.7 per cent reduction in the import of capital goods.

The major increase was the import of fuel – which cost \$115.1 million in the first six months of 2009, and \$241.5 million in the same period of 2010, a rise of 110 per cent. This was due, not only to the rising international price of fuel, but also to an increase of over 50 per cent in the amount of fuel imported.

All the figures for 2010 are provisional, and subject to later correction.

For an in depth analysis of events, read MozambiqueFile. Subscription rates are individuals \$40 institutions US\$50. Send an International Money Order to AIM, CP 896, Maputo, Mozambique.

Inflation running at over 12 per cent

The rate of inflation in Mozambique, as measured by the Maputo City Consumer Price Index, was 12.12 per cent in the first eight months of the year, according to the Bank of Mozambique.

Speaking at a Maputo press conference on 22 September, the Bank's spokesperson, Waldemar de Sousa, said that yearly inflation (from 1 September 2009 to 31 August 2010) was 17.08 per cent.

This is a huge difference from the situation a year ago, when inflation had appeared to be under complete control. Between January and August 2009 prices actually fell (by 0.2 per cent), and the September 2008 to August 2009 inflation rate was a mere 1.12 per cent.

Food prices were the major factor behind the surge in inflation. In the first six months of the year, the average price of fruit and vegetables rose by 34.18 per cent. These price rises are largely because so much of the fruit and vegetables consumed in southern Mozambique is imported from South Africa, and the Mozambican currency, the metical, has depreciated sharply against the South African rand. Indeed, the rand has strengthened against most other currencies on the back of a sharp rise in the gold price.

Grain prices rose in the January-June period, but only by 6.68 per cent. The price of rice rose by 21.3 per cent and of maize flour by 10.9 per cent. Up until June, wheat had not been a serious problem, but the international wheat price then spiralled upwards, which Sousa blamed on the Russian ban on wheat exports, following catastrophic fires.

Fuel prices also drove inflation. The freeze on fuel prices imposed by the government in 2009 ended in March, and by the end of June fuel prices had risen by 43.54 per cent.

Sousa said that the depreciation of the metical was to some extent caused by the delays by donors in disbursing promised budget support in the initial months of the year. This delay, often referred to as a "donor strike", led to "a more conservative stance from exporters", the central bank noted. The exporters were reluctant to sell their foreign exchange, in the expectation of a deterioration in the exchange rate.

Another factor putting pressure on the metical was the expansion of credit and of the money supply, following the stimulus measures taken by the government and the Bank of Mozambique in 2009 to reduce the impact of the international financial crisis.

Sousa said that a further matter of concern was the deterioration in the financial condition of the commercial banks. Their average solvency ratio fell from 16.6 per cent in 2009 to 15.2 per cent in June 2010 – but this is still way above the minimum figure of eight per cent required by the Bank of Mozambique.

No significant Mozambican bank is in any danger of collapse. Only one small bank and three other credit institutions are regarded as at high risk, and they account for just 0.03 per cent of the assets in the financial system.

Four World Bank loans

The World Bank's Board of Executive Directors has approved four loans totalling \$143 million for development projects in Mozambique.

The largest loan, for \$50 million, is a second instalment of World Bank funding for the Maputo Municipal Development Programme. According to the Bank this is intended "to increase the coverage and quality of Maputo Municipality's services to its citizens by continuing to strengthen its institutional and financial capacities".

The project "will support actions towards ensuring the financial sustainability of the Maputo Municipal Council, including raising revenues and rationalizing expenditures with the support of an integrated financial management system".

A second loan, for \$39 million, goes towards a Health Commodity Security Project that is designed to improve the availability of selected drugs and medical supplies. According to the Bank, it "will finance the procurement of much-needed selected essential commodities to prevent and treat HIV/AIDS, malaria, TB, and promote reproductive and child health".

The third credit is for \$34 million of additional funding for the existing Water Services and Institutional Support Programme, intended to increase water service coverage in the cities of Beira, Nampula, Quelimane, and Pemba.

Finally, a \$20 million loan will be spent on a "Spatial Development Planning Technical Assistance Project" which "will specifically seek to strengthen and develop capacities of the coordination commission for studies and projects at the Ministry of Transport and Communications; implement south-south cooperation schemes; and introduce cross-cutting institutional development programs".

The money comes from the World Bank's soft loans affiliate, the International Development Association (IDA). IDA credits carry no interest, and repayment is usually staggered over a period of up to 40 years, including a ten-year period of grace.

ADB funds Zambia-Nacala road

The Board of Directors of the African Development Bank (ADB) has approved a loan of \$95.6 million to finance the Nacala Corridor Road Project (NCRP) Phase II, in Zambia. The road is intended to provide access for Zambia to the northern Mozambican port of Nacala, widely regarded as the best deep water port on the east African coast.

Phase 1 included 348 kilometres of roads in Mozambique, and a 13 kilometre bypass in Malawi. Phase 2 covers 360 kilometres of roads in Zambia, between Luangwa and Mwami.

This is a condensed version of the AIM daily news service – for details contact aim@aim.org.mz

Alternatives to prison would save millions of dollars

Mozambique's National Prison Service (SNAPRI) estimates that the adoption of measures other than imprisonment to punish petty criminals would save the state the equivalent of \$6 million a year.

Speaking at a Maputo seminar on prison reform on 30 September, the national director of the prison service, Eduardo Mussanhane, said that the logistics required to care for the over 15,000 inmates currently incarcerated in the country's jails was a heavy burden on the state.

The seminar was intended to collect proposals and suggestions for a bill on alternatives to prison currently being drafted.

Contributing to severe overcrowding in prisons is the fact that many of the inmates have not been convicted of anything, but are merely awaiting trial. Thirty five per cent of prisoners are on remand.

Mussanhane added that 45.3 per cent of those sentenced (4,513 prisoners in the third quarter of 2010) were serving prison terms of a year or less.

Based on international standards, there was no good reason why many of these people should not be sentenced to community work or service instead of prison terms.

According to Abdul Carimo, head of the government's Legal Reform Technical Unit (UTREL), "the penal system is strongly retributive and allows prison to be used as the rule rather than the exception".

The results of this including overcrowding in the prisons and a high rate of re-offending.

Government plan to solve transport problems

The Mozambican government hopes to have essentially solved the problem of urban passenger transport in the main cities by the end of next year. According to the National Director of Land Transport in the Ministry of Transport and Communications, Pedro Moreruia, this will be achieved by importing many more buses, some on leasing schemes, and some owned outright by state transport companies.

Thus 50 new buses have already been leased from the country's largest bank, the Millennium-BIM (International Bank of Mozambique), and a further 50 are being acquired through this scheme.

Briefing reporters on these plans, Moreruia said that the government is in negotiations with suppliers from India and South Korea to provide 150 buses powered by natural gas. Initially, these buses can only be used in Maputo and the neighbouring city of Matola, since these

are the only places in the country where the company Autogas has stations selling gas cylinders.

However, discussions are under way to expand the provision of natural gas for vehicles to other cities, starting with Xai-Xai capital of Gaza province.

Moreruia said that the sales contracts would include clauses obliging the suppliers to provide an adequate number of spare parts for their buses, and to train Mozambican mechanics.

Angelo Mavie, the director of economics and investment in the Ministry, said purchase of the buses would be financed out of a new Fund for the Development of Transport and Communications, set up by a government decree of 15 September. Sixty per cent of the revenue from selling transport permits will go into this fund, and five per cent of the fuel tax.

Government approves plan to fight malnutrition

The Mozambican Council of Ministers (Cabinet) on 28 September approved a ten-year plan to reduce chronic malnutrition.

The latest statistics put levels of chronic malnutrition at 44 per cent. The targets in the government's plan are to reduce this to 30 per cent in 2015, and 20 per cent in 2020.

Chronic malnutrition results from an inadequate diet over a lengthy period, and is shown by stunting, or insufficient height for age. It is thus distinct from the more deadly acute malnutrition, or wasting, which results from an extremely low intake of food.

The government spokesperson, Deputy Justice Minister Alberto Nkutumula, told reporters that the strategic objectives of the plan are to improve the nutritional status, particularly of children under the age of five, and to improve the health and nutrition of women.

The government hopes to reduce the number of early pregnancies, cut the prevalence of anaemia among pregnant women, reduce the number of infants weighing less than 2.5 kilos at birth, and increase the number of mothers who provide exclusive breast-feeding to their babies in the first six months of life.

"This is a general plan, based on which annual plans will be approved to achieve the goal of reducing chronic malnutrition to 20 per cent by 2020", said Nkutumula.

The causes of chronic malnutrition include not only difficulties in access to adequate amounts of food, but also poor water supply and sanitation resulting in diarrhoeal diseases, malaria, and respiratory infections.

People suffering from chronic malnutrition are at greater risk of contracting infectious and degenerative diseases, and have a reduced capacity for work or study.

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