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FINANCIAL TIMES SURVEY

MOZAMBIQUE

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SECTION IV

Tuesday January 15 1991

Negotiations to end a 15-year civil war are under way and Mozambique is moving towards a mixed economy and a multiparty system. However, the rebuilding of a devastated country which is dependent on aid will prove a long haul. **Tony Hawkins reports**

First steps on road to peace

AMID cautious hopes of a negotiated end to Mozambique's 15-year civil war, President Joachim Chissano's energies are focused on winning at the polls the victory that eluded him on the battlefield.

Peace would end an ordeal that has forced some 3m people to flee their homes and left over a quarter of the country's 15m population desperately short of food.

So far, however, all that has been achieved after a year of informal contacts, mediation and direct talks is a partial ceasefire covering the Beira and Limpopo transport corridors.

It could yet fall apart. If the Renamo rebel movement believes – as do many observers – that it will lose the elections that Mr Chissano wants to hold in mid-year, then it will have little incentive to co-operate at the negotiating table.

The rebels have already made one important concession which augurs well for the future. They dropped their original demand that the 8,000-10,000 Zimbabwean troops, who have been supporting the government be sent home. Renamo agreed instead to their being confined to the two corridors.

However, the critical test will come at the next round of talks, due to take place later this month, for the participants will be tackling the thorny problem of access to power. There are many hurdles to be overcome: the nature of the electoral process, the timing of elections, control of the administration during a transition and access to the media.

Once these issues are resolved – which could take many months – the two sides will still have to agree a country-wide ceasefire and a plan for the integration of their two armies.

Hopes of a successful outcome rest largely on sheer war-weariness on the one hand and the withdrawal of foreign sponsorship on the other. In the past 18 months, each side has lost its main foreign paymasters with the withdrawals of South Africa, the Soviet Union and the former communist governments of eastern Europe.

The ruling Frelimo party, however, can still call on the increasingly reluctant Zimbabweans, though for how much longer is unclear.

Recently, Frelimo has had the upper hand, both militarily and in the peace negotiations. The astute Mr Chissano has outmanoeuvred Renamo, shooting both its main foxes – the one-party state and the Marxist-Leninist economy.

With a reborn Frelimo, committed to multiparty democracy, a market economy and introducing a new constitution with which few can quarrel, Renamo (which has never had a coherent political programme) has little to offer the electorate.

Initially the creature of Rhodesia in the 1970s and latterly of South Africa, Renamo has murdered and brutalised its way to the negotiating table. Westerners find it inconceivable that such a party, drawn from the ranks of a rag-bag guerrilla army, could win free elections.

The odds are not all stacked against Renamo. There are disaffected groups, especially in central Mozambique, and Renamo has exploited regional and ethnic tensions. Intimidation is bound to feature in the elections and Frelimo can hardly expect to escape all blame for the deepening social misery of the last 15 years.

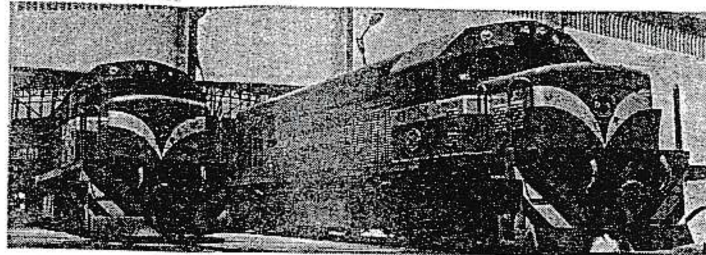
As the aggressor, Renamo holds one powerful card: only when it agrees will the war end. The option to go back into the bush and resume the struggle remains open. Renamo might win votes not because it has a popular programme but because it convinces voters that it is the only party capable of delivering peace.

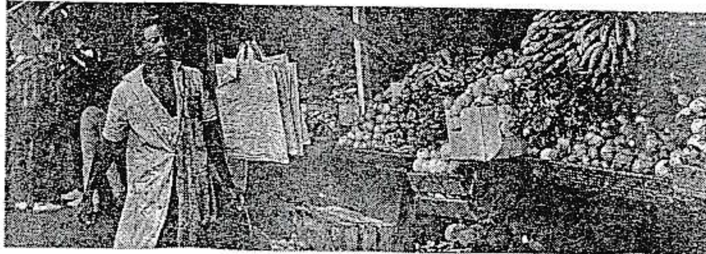
This is the one advantage that Renamo still has and it is difficult to see how Frelimo can counter it, other than by winning the war.

While the people may blame Renamo for the war, Frelimo's *volte face* on economic policy is an admission of responsibility for much of the hardship people have suffered.

It is still early days. Mr Chissano's hopes for a mid-year poll seem impractical, and elections are unlikely to be held before mid-1992 at the earliest. However, there are no signs of any electable third force emerging to draw votes from those who have had enough of both sides.

For all the domestic respect and international acclaim that he commands, President Chissano has his own image problem. The core ideology that sustained the party through the revolution and the war against the rebels has been turned on its head.





A partial ceasefire has raised hopes for an end to Mozambique's civil war. With peace would come a revival of agriculture, the mainstay of the economy, and the ports and railways could begin to reap the benefits of a rehabilitation programme

His critics accuse him of betraying the socialist revolution of Samora Machel, Mozambique's founding president who died in an air crash in 1986; of economic and social mismanagement on a breathtaking scale; of corruption and of presiding over the "re-colonisation" of Mozambique – today by the donors and tomorrow by private foreign capital.

It is ironic that the Marxist quest for self-reliance should have left the economy so heavily dependent on aid. It has turned the economy into "the Donor's Republic of Mozambique". The tag is more than just a cynical gibe. It is a fact of life.

"Our oil import bill alone will exceed export earnings in 1991", says industry minister, Mr Antonio Branco. Aid inflows of more than $1bn a year will be needed throughout the 1990s. Aid on such a scale – 76 per cent of gross national product – carries a health warning; it is nothing if not addictive.

Maputo businessmen rank projects less by their viability than by their eligibility for aid – capital or foreign exchange. A project is a good one if there are Italian, Swedish or Dutch funds to support it.

Chasing the donor dollar has become the most important game in town, whether one is a Mozambican businessman or a foreign salesman. The result is a dependency culture that is the very antithesis of what aid is supposed to achieve.

The ultimate irony is that those who bang the market economy drum the loudest – the donors – are the very ones making investment decisions on the basis of domestic political criteria quite unrelated to market considerations.

Funds are allocated because they fit the donor flavour of the year – be it human rights, the role of women, environmental protection or the informal sector.

Sadly, there is no other option on the table. The economy is in ruins; almost two-thirds of the population live in absolute poverty, meaning that they spend at least 60 per cent of their incomes on food. There are 1.2m refugees, mainly in neighbouring Malawi, and another 1.75m displaced people within Mozambique.

Finance minister Mr Magid Osman believes that the war has cost the country $15bn. The education system is in tatters; three quarters of primary (3,200) and 15 per cent of secondary schools have been destroyed. Last year, 40 per cent of the school-age population had no access to schools, while another 40 per cent are illiterate when they leave school.

The average age of the vehicle fleet is 20 years; only half the paved roads and 15 per cent of gravel roads are in good condition. Foreign earnings from transport – the ports and railways – fell from $112m in 1981 to an annual average of $20m in the last three years.

The constraints on development are obvious: the war and the run-down infrastructure; acute shortage of skills of all kinds; the shallow state-dominated financial system; tiny domestic market; and an unsustainable foreign debt and external payments situation.

The only solution is economic aid along the lines of the Marshall Plan. The priorities are clear – end the war, revive agriculture, inject large amounts of foreign capital to rehabilitate the infrastructure, train the workforce and repay the debt; dismantle controls, privatise state enterprise and encourage foreign investment.

Mozambique has been a model pupil for the International Monetary Fund and the World Bank; it looks to them and the wider donor community to deliver. They, in turn, know that if they bungle this one, what remains of their reputation after a disastrous decade in Africa will sink without trace.

Just as South African destabilisation has done so much damage to Mozambique's economy, so developments in South Africa could now help to transform it.

If the economic powerhouse next door prospers, Mozambique is the one country in the region most likely to benefit – from transport, tourism, investment and exports.

Even if all goes to plan – with the peace talks and with the economy – it is still going to be a long haul. It will take 15 years for living standards to return to their pre-independence levels. However, this will only happen if the donors continue pumping $1bn a year into Africa's poorest economy.

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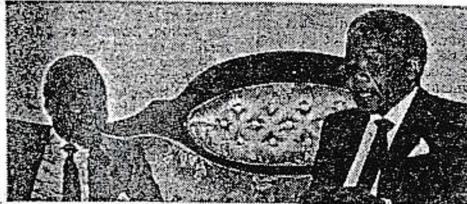
A revision of political thinking offers hope, writes **Julian Ozanne**

Painstaking search for peace

IT was a sunny afternoon at Mbuyanguana, on the outskirts of Maputo, when Renamo rebels burst into a wedding party firing AK47 assault rifles. Four people were murdered, four were injured including the groom and 25 children were kidnapped and taken into the bush.

This recent attack, as senseless and cruel an any other in Mozambique's 15-year-old civil war, demonstrated once again the failure of the Mozambican army to defend innocent civilians even within the vicinity of the capital.



President Chissano's first meeting with Nelson Mandela, the vice-president of the African National Congress, in Zambia

However, for the first time since independence in 1975 there are real possibilities for an end to the conflict which has made 80 per cent of the country insecure, destroyed billions of dollars of infrastructure and forced more than a million people to flee their country's borders.

In the past two years, President Joaquim Chissano has searched painstakingly for a political solution which would bring an end to the civil war and give his impoverished country hopes for economic revival.

Since 1988 his achievements have been remarkable. He abandoned the rhetoric of the past which branded all rebels as traitors and bandits and shed the naive belief that a military solution was possible. He launched a successful international diplomatic effort to isolate Renamo, backed first by white Rhodesia (now Zimbabwe) and until last year by South Africa. He has opened peace talks with the rebels, holding four rounds of negotiations within the last seven months.

He has steered the country further away from its traditional Communist bloc alliance and edged his once rigidly Marxist-Leninist Frelimo party away from socialism and a monopoly of state power towards a liberal multiparty system in spite of hardline opposition.

The crowning achievement of this process of political transition was the new constitution which came into effect last month. It committed the country to a mixed economy, freedom of the press, an independent judiciary and multiparty elections. It also marked the culmination of a radical policy review begun by the late President Samora Machel in the 1980s who started the process of reform as the economic failures became apparent.

By meeting all the main political demands of Renamo, Mr Chissano's rapid offensive has called the rebels bluff and caught them off-guard. He has challenged them to surrender their weapons, form a political organisation and contest power and their popularity through the ballot box. With no test of public opinion it is unclear how much support either side has in the countryside.

Signs of Renamo's trepidation in giving up the armed struggle and their increasingly weakened political position have been amply demonstrated recently as the rebels have been reduced to criticising the methods of Mr Chissano's reform rather than the substance.

Some political observers fear that Mr Chissano has gone too far too quickly leaving the rebels little room to manoeuvre and even less chance of being able to come out of the conflict with any credibility.

A partial ceasefire was negotiated last month under which the 7,000 Zimbabwean troops stationed in Mozambique to support the government are being confined to the transport corridors linking Zimbabwe to Maputo and Beira. An international monitoring commission, including Renamo representatives, has been set up to oversee the agreement.

More talks were scheduled this month between the government and the rebels and observers believe the government is determined to get a full ceasefire agreement by April. But obstacles remain.

For Renamo to give up their arms, they must have at least the glimmer of winning power. For the moment, all cards seem to be in Frelimo's hands, particularly given its extensive political organisation throughout the country.

Renamo appears nervous of calling for a cessation of the conflict because of the very real possibility that such a move would be ignored and expose the rebel's lack of control over the bulk of their fighters and the degree to which many of them have abandoned a disciplined political struggle for armed banditry against the civilian population.

Even if Renamo and the government can agree on a compromise acceptable to both sides insecurity will continue to plague the countryside for many years. Integration of the rebel forces into the army will prove difficult.

Furthermore, whether multiparty elections can produce a stable political order remains highly questionable. Before Mr Chissano's conversion to pluralist democracy he, and many senior Frelimo figures, were concerned about the possible eruption of tribalism.

A negative strain of black Mozambican nationalism has emerged in parliamentary debates on the issue of nationality. At least one of the embryonic political parties, the liberal and democratic party (palmo) has launched a political critique of the government on the grounds it has given preferential political and economic treatment to indians, whites and people of mixed race.

At a recent press conference Mr Chissano acknowledged that the decision to opt for a multiparty democracy was not without dangers. He confirmed that the decision had been taken against widespread opposition among ordinary people in the rural areas. But argued that the "the choice of a multiparty democracy results from the need to provide a new dynamic to the political process."

His vision in that respect will bode well in the international aid community, which is increasingly pressing the issue of democratisation in Africa, where, in contrast to other leaders on the continent, he is seen as a willing, rather than a reluctant, reformer.

It is still very early to judge the prospects for political transition in Mozambique. But it is clear that the fundamental revision of thinking in the last two years has given the country a chance, in spite of large difficulties, of climbing out of the quagmire into which it has slid.

INDUSTRY: skill shortage slows progress

Difficult year ahead

MANUFACTURING is unlikely to play more than a secondary role during the next decade. An overvalued currency, a small domestic market and an acute shortage of managerial and technical skills will ensure that industrialisation is a very slow process.

Prior to 1987, few consumer items were available in rural areas, and then only at exorbitant prices. Securing the desired supply response in agriculture will partly depend on access by peasant farmers to moderately-priced consumer goods and production inputs. Industry's immediate role is to satisfy these needs as well as processing farm production.

Its share of gross domestic product is 17 per cent – down from 23 per cent 10 years ago. In 1989, manufacturing output was 30 per cent below its 1980 level, though it had recovered some of the ground lost prior to 1986. Since then, production has been growing at 7 per cent a year though there was an interruption last year when activity was curtailed by frequent power cuts caused by rebel sabotage.

In spite of this, capacity utilisation is back to 50 per cent from 30 per cent in the mid-1980s though much of this capacity is more theoretical than real since the productive base has suffered from neglect, lack of spares, and insufficient maintenance, not to mention war damage.

Some two-thirds of production is in three main sectors: food, beverages and tobacco account for a third, clothing and textiles for 18 per cent and fisheries for 12 per cent.

There are two main immediate policy priorities.

Restructuring state enterprise heads the agenda. Ten years ago, four-fifths of industrial output was carried out by the state, but today it is less than half. Mr Antonio Branco, the industry minister, says the public sector share will be cut to "almost nothing" as privatisation proceeds. Privatisation is partial, with the state retaining a minority stake but giving management control to the new owners.

Secondly, the shortage of resources – capital, skills and management – has forced the government to select its preferred industry sectors. Although such a task is inherently risky, the very limited options available to Mozambique simplify the task. Agricultural-related activities figure prominently in the preferred sectors along with "basic needs" consumer goods, (clothing, textiles, footwear, household goods) and construction materials and farm implements.

Not surprisingly, recent industrial projects fit this pattern. Mr Branco says his ministry has given the go-ahead for 12 medium-scale consumer industries each with an investment of some $250,000 – in clothing, footwear, textiles and prefab housing materials.

Textile factory in Nampula

Rehabilitation work is under way at the Matola cement plant where there are plans to expand output five-fold to 600,000 tonnes a year. A new cement factory, supported by the Germans, is under construction at Tete.

Some companies have even managed to break into export markets. The Portuguese group, Amorin, has taken a 55 per cent stake in the Mabor tyre company. It plans to produce 800 tyres a day, of which a third will be exported. The Agro-Alpha agricultural equipment factory has won a $1m order to sell farm equipment to Angola.

An end to the war will enable industry to grow much more rapidly – possibly expanding at 10 per cent a year from 1992 onwards. The current year threatens to be a difficult one for industrialists as energy supplies will remain tenuous. However, companies are more troubled by policy shortcomings: a tariff structure that taxes raw material imports; free entry for manufactured goods supplied under aid programmes; processed foods brought in as part of the emergency relief programme and sold cheaply or even distributed freely; the smuggling of low-price goods from South Africa and Zimbabwe.

Given this kind of competition – and the threat of aggressively-priced imports from South Africa – establishing new industries and reviving existing ones is not going to be easy. Further substantial devaluation will help manufacturers who rely on domestic raw materials. However, tariff reforms and the treatment of donor-funded imports will also be needed.

Tony Hawkins

ENERGY: hydro-electricity potential lifts long-term prospects

Export plans shape future

ENERGY has been a much-troubled sector since independence.

Not only has repeated sabotage of the transmission lines prevented Mozambique from exporting electricity to South Africa, but it also played havoc with industry, especially in the Maputo area, last year. However, in a country that has greater hydro-electric potential than any other in Africa, the long-term prospects are exceptional.

It is not just electricity that is set to become a large export earner. Coal reserves in Tete province are estimated at more than 6bn tonnes.

Only the Moatize mine is currently being exploited with an annual output of less than 1m tonnes. The ambitious $1.5bn Moatize project – an open pit mine, a refurbished railway line to Beira and a coal export terminal at the port – could create export capacity of some 8m to 10m tonnes annually.

A joint feasibility study is under way by the Ministry of Mineral Resources, Lonrho and the Brazilian Companhia Vale do Rio Doce (CVRD). More recently, Trans-Natal Coal of South Africa agreed to participate. The study should be ready by the end of 1991 and exports of at least 5m tonnes a year are possible from 1995.

A project study by Bechtel, the US group, in 1972 of the Pande Natural gas field, has been revived. The original plan was for an investment by Anglo American in a project to pipe the gas to the Witwatersrand industrial area in South Africa.

Natural gas could be used to feed a fertiliser plant and to provide energy for industry in the Maputo area. Detailed exploration was disrupted by Renamo, but with two Portuguese groups showing interest along with Montedison of Italy, officials say the project could soon be given the go-ahead.

In the 16 years since independence five multinational oil companies have spent more than $60m on exploration but there have been no large finds.

Seismic surveys suggest that the country has the potential to be self-sufficient with a modest export surplus. The best prospects are the Rovuma Basin near the Tanzanian border, being investigated in a joint venture with Tanzania and off the Gaza coastline.

It is electricity that holds the key to substantial export earnings from energy. The Cahora-Bassa dam has a capacity of MW2,075 of which almost MW1,900 is earmarked for South African usage. The rehabilitation programme planned for 1990 will start this year as more than 1,500 pylons having been destroyed by Renamo.

New plans provide for a triangular grid feeding Zimbabwe as well as South Africa and Mozambique. Once security conditions permit, a new 350 km line costing $150m will be built to Zimbabwe.

This development is only the tip of the iceberg.

A 1981 study identified 13 additional projects along the Zambesi river, including phase two of Cahora Bassa, with an aggregate capacity of MW5,000. These projects which would take a generation or more to complete have the potential to transform the economy – through irrigation schemes at home, electricity exports and, of course, cheap energy for domestic industry.

Tony Hawkins

Plans to revive one of the world's poorest economies rely on foreign aid. On this page, **Tony Hawkins** assesses the outlook

Donor policies face another African test

A SENSE of mission impossible surrounds the ambitious plans for economic recovery in Mozambique.

Will aid inflows of over $1bn a year turn around one of the world's poorest economies with a per capita income below $100, a scheduled debt-service ratio of 175 per cent and a current account deficit exceeding 50 per cent of gross domestic product.

Fortunately, there is no shortage of ideas and commitment, nor it seems, of aid.

At the Paris Consultative Group meeting last month, Mozambique was pledged the $1.2bn it needs to see it through 1991. For the rest of the decade, it is destined to be an economic laboratory experiment in which the strategies and ideology of the donor community, the World Bank and IMF will be on trial.

With a decade of African failure behind them, they desperately need success – proof that structural adjustment can work in Africa.

Given a peace settlement, Mozambique will provide evidence, one way or the other, of the viability and appropriateness of donor policy towards Africa.

The contrasts with many other African countries are striking; President Chissano is not only taking the reformist medicine but also buying the "good governance" solution. Unlike sub-Saharan governments, the Mozambicans are more concerned with making the policies work than justifying their failures and blaming the doctor.

Inevitably – in the light of the war, the collapse of administration and the state of the infrastructure – there is slippage. Some targets have been missed, but reform, political as well as economic, is pretty much on track.

Abandoned by its erstwhile East European and Russian allies, Mozambique had little option other than to submit to donor economic and political conditions. Having made that unpalatable decision, the Mozambicans are sticking by it.

The underlying strategy is three pronged: the agricultural sector; the establishment of an enabling environment and an assumption that substantial external finance will be available. It is agriculture, and specifically the family sector, that is the key to recovery.

It is also the sector where poverty is most acute and where the greatest gains can be made with limited amounts of investment. Investment in the transport and marketing infrastructure and the liberalisation of crop pricing with linkage to border parities are crucial. The reform of farm credit mechanisms, which presently bypass the peasant sector, is another important factor.

The second prong, establishing an enabling environment, involves rolling back the frontiers of the state and creating a viable private enterprise economy. The government that once espoused hardline Marxist-Leninism is privatising as fast as it can. Since 1987, the number of state farms has been reduced to 109 from 150 and the area farmed by the state is down to 90,000 hectares from 150,000.

Some 50 medium and large manufacturing enterprises and many more smaller ones have been privatised. Five management contracts have been signed with companies that will remain in state hands.

Banking is being restructured and new financial instruments developed. State concerns can no longer rely on state-owned banks to fund their losses. The foreign payments system is being liberalised by allowing Standard Totta, the sole privately-owned bank, to undertake more foreign currency transactions.

A second tier foreign exchange market was launched late last year allowing importers to buy foreign currency, paying 1,800 meticais for the dollar rather than official rate of 1,000. Import controls are being loosened with the creation of a non-administrative system of import allocation known as SNAAD.

SNAAD was established in September 1989, it handled only 3 per cent of total imports (about $30m) last year, but the government is asking donors to untie their aid programmes from specific projects, products and suppliers and channel the funds into SNAAD so that more imports can go on to open general licence.

Progress on the budgetary front has been considerable: the fiscal deficit is down to 10 per cent of GDP from more than 15 per cent five years ago. Domestic bank financing of the deficit has been slashed to 1 per cent from 12 per cent; subsidies are being phased out and public utility charges raised to realistic levels. Electricity and water tariffs were increased by 25 per cent to 65 per cent in 1989 and there was further 20 per cent rise last year.

The third prong is the assumption that substantial external finance will be available, at least for the rest of the 1990s. The foreign debt overhang is unsustainable and will have to be relieved by forgiveness and rescheduling. Mozambique's external debt has more than trebled in the last eight years reaching $4.6bn in 1989. Over the next three years, foreign financing requirement averages $1.2bn of which some $850m a year is needed to fund the current account deficit and the balance to repay loans. Debt relief of at least $250m a year is crucial to the plan's success.

Exports and service earnings collapsed from $450m in 1980, to only $185m in 1985. Last year they were estimated at $300m, compared with current account outgoings of $1.15bn and debt repayments of a further $300m, leaving an overall financing of nearly $1.2bn.

The port of Maputo is making its own efforts to reduce aid dependency by increasing exports. Although the metical has been devalued from 40 to the dollar in 1986 to 1,000, there are still large discrepancies with the second tier rate (1,800 to the dollar) and the parallel or black market rate (2,300). The medium-term plan is to narrow the gap between the first and second tiers, implying further large devaluations in 1991 and 1992. Competitiveness has improved – the real effective rate was down to 70 (1980 = 100) at the end of 1989 from 330 in 1986.

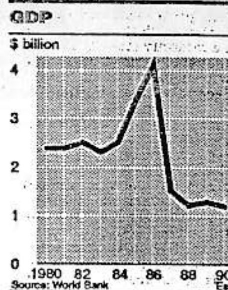
Exports are projected to grow twice as fast as imports – 17 per cent as against 7 per cent. In spite of this the import share in GDP will continue its inexorable rise to more than 72 per cent, and the current deficit will increase. Because reconstruction and growth are heavily import dependent, there is no viable alternative development strategy.

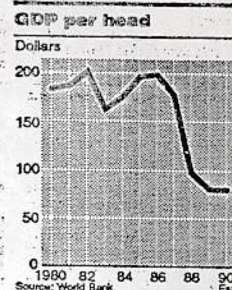
Devaluation helps little when the structural obstacles to export growth are so enormous. The best answer is lower inflation. This decreased from 160 per cent in 1987 but last year's 30 per cent was well above the 18 per cent target.

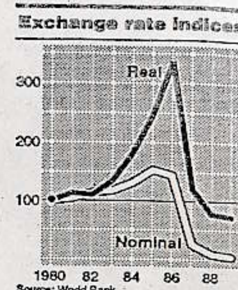
Economic growth is forecast at 6 per cent a year after a disappointing 3 per cent in 1990. Finance minister Mr Magid Osman worries that preoccupation with political problems will have adverse repercussions on the economy in 1991, but he believes that with a political settlement in South Africa, Mozambique's economy could grow at 10 per cent a year and exports increase fourfold to exceed $1bn by the turn of the century.

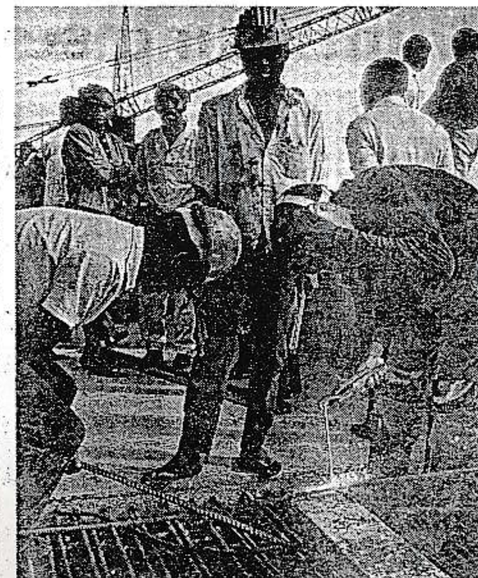
Export growth will come from mining, from the revival of traditional exports such as prawns, cashew, cotton and sugar, from energy and services, especially transport and tourism.

Given debt relief and renewed foreign investment and a modicum of luck, both politically and with commodity prices, the mission begins to look rather less impossible.

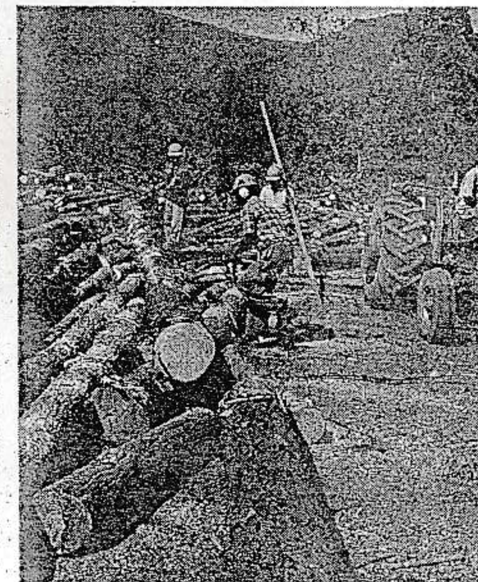








Upgrading work at Beira port which is becoming a multipurpose terminal (above). Logging in Manica province (below)



Aid accounts for 76% of GNP

Cash that keeps the ship afloat

IN THE words of a cynical businessman, it has become the "Donor's Republic of Mozambique." It is far and away the world's most aid-dependent economy with official development assistance (ODA) accounting for 76 per cent of gross national product in 1988-89 against a sub-Saharan average of 11 per cent.

Aid provides 80 per cent of foreign exchange inflows compared with 50 per cent for Tanzania, 25 per cent for Kenya and 11 per cent for Zimbabwe.

Comprehensive aid figures are hard to find. The World Bank puts aggregate external capital assistance since 1980 at $8.5bn, though so large were capital repayments that between 1984 and 1989 the net flow of medium and long-term capital was actually negative.

Italy has been the largest player with aid of $1bn over the last five years spread across some 500 projects, 40 of them completed. The Swedes are in second place with $125m and the US comes third with just over $100m. The donor contribution

On the strength of Mozambique's experience to date, the answer has to be no. Aid has focused, necessarily, on keeping people alive, keeping the ship of state afloat. Even so, at least 60 per cent of the population live in absolute poverty.

Between 1986 and 1989, net aid disbursements to Mozambique averaged $760m a year. but during the same period, GNP calculated in US dollars, actually fell. Part of the explanation, of course, aside from the obvious one of metical devaluation, is that much of the aid never sees Mozambique but is a book-keeping entry – such as debt relief.

More to the point is whether the aid flows are creating future productive capacity as, for example, in the case of transport corridor rehabilitation. Unfortunately, there is little evidence that when the aid bandwagon moves on it will leave behind it the technical, administrative and managerial skills to exploit the physical infrastructure created.

Nowhere in Africa is what the World

gains from aid will be largely transitory.

Technical assistance accounts for 10 per cent of GNP, but it is far too soon to tell whether the transfer of skills is taking place on anything like the large scale required. Already there are complaints and evidence of "crowding out."

Duty free imports undercut local production; tied aid supplies force importers to use high-cost materials and spares. Access to aid is a disincentive to save, to export, or take risks with private capital. Why should a foreign company invest in Mozambique, when the World Bank or EC is prepared to make the capital available there?

Ironically, the demand for aid will increase with a peace agreement. There are 1.2m refugees and 1.75m people displaced within Mozambique to be resettled; no-go areas will be accessible once again and the rate of rehabilitation spending will accelerate. Over the next three years, Mozambique will need about $1.2bn a year to repay its debts and finance its

across some 500 projects, 40 of them completed. The Swedes are in second place with $125m and the US comes third with just over $100m. The donor contribution to humanitarian programmes, health and education, and food aid has been outstanding, but the nagging question remains: is it development?

behind it the technical, administrative and managerial skills to exploit the physical infrastructure created.

Nowhere in Africa is what the World Bank calls "the missing middle" – middle managers, privately-owned medium-scale enterprises – less in evidence. Without it, there is a very real danger that the and the rate of rehabilitation spending will accelerate. Over the next three years, Mozambique will need about $1.2bn a year to repay its debts and finance its current account deficit. Donors will be called upon to provide $500m annually in grants, $300m in loans and a further $300m in debt relief.

The reform of the banking system is proving a painful process

Market replaces the bureaucrats

THE banking system is in the throes of painful transition as the market gradually replaces the bureaucrats.

Before reform started, interest rates were kept low to encourage investment. The central bank had a monopoly over foreign exchange transactions, while the banks propped up inefficient state enterprises and farms and financed the budget deficit. Savings mobilisation had a low priority.

The banking system, which contains just three banks, is dominated by the Bank of Mozambique (BM). It doubles as the country's chief commercial banks as well as the central bank and accounts for two-thirds of bank lending.

The development bank – Banco Populo Desenvolvimento (BPD) has 20 per cent of bank lending, while its farm-lending subsidiary, Caixa Credito Agraria de Desenvolvimento Rural (CCADR) has 9 per cent.

The country's sole privately-owned bank, Banco Standard Totta Mozambique (BSTM) – in which the Portuguese-based Banco Totta and Acores has a 40 per cent stake and Standard Chartered 35 per cent – has more than doubled its market share in the last two years to 7 per cent.

When the reform programme was launched in 1987, it was apparent that the banking system was a bottleneck. A first priority was restructuring the state-owned banks. In 1987, one-third of the Bank of Mozambique's lending took the form of non-performing loans to state enterprises, while in BPD's case the comparable figure was 28 per cent. Most of this has been taken over by the state or rescheduled.

Interest rates came next. Although they continue to be administered rather than market-determined, they have been raised to within hailing distance of the inflation rate. In foreign transactions, BSTM is being allowed to widen its foreign exchange range of customers and functions.

A second-tier foreign exchange market was opened late last year, though this remains in the hands of the BM. The commercial and official functions of the Bank of Mozambique are being separated. By mid-1992, the commercial arm will be independent of the central bank.

As with most transitions, the process is uneven and, at times, contradictory. Excess market liquidity, caused by the war, state loans to state enterprises and, more recently, counterpart funds – the meticais equivalent of aid inflows – is a serious problem and credit ceilings are used to curb credit growth. BSTM will not take new deposits, partly because it is flush with cash but also because it cannot expand lending by more than 20 per cent annually.

The present system is an uneasy compromise between market forces and direct controls. Thus, 90-day deposit rates of 27 per cent are set just below the estimated inflation rate of 30 per cent, while there is a three-tier system of lending rates.

Loans for priority activities, such as agriculture, agro-processing and electricity distribution range between 27 per cent and 31 per cent; mining, manufacturing, fishing and construction pay between 30 per cent and 35 per cent and low-priority activities such as distribution and services pay from 36 per cent to 42 per cent.

The family sector of peasant producers, seen as the key to rural revival, is starved of credit. Because they have no collateral, no formal accounting systems and because their assets are so vulnerable to destruction by the rebels, family farms remain outside the formal credit system. Less than 1 per cent of CCADR's loans go to such small-scale producers.

The solution – according to the World Bank – is an indirect one. Establish a viable retail network in rural areas that will sell to family farmers on credit terms. Unfortunately though, 42 per cent interest rates mean that retailers and peasant farmers cannot afford to buy or sell on credit.

Foreign capital is much sought after

UK heads equity inflow table

AS peace prospects brighten, foreign executives are adding Mozambique to the relatively short list of African countries worth a visit.

The country's stock of foreign capital is "guestimated" at some $1.2 bn, owned mainly by Portuguese, British and South African companies.

Since the mid-1980s, Mozambique has set its cap at foreign capital, introducing a foreign investment law, establishing a one-stop investment agency, phasing out controls and privatising state owned corporations. But progress is slow.

The Foreign Investment Promotion Office (GPIE) estimates new investment in foreign-controlled projects since 1985 at $318m. About 40 per cent of this represents "autonomous" or equity investment. Of this almost $100m is new foreign equity and the remainder of $28m is domestic equity invested by joint venture partners. The balance of 60 per cent ($190m) is mainly offshore loan capital.

Because of Lonrho's agricultural and mining activities, the UK heads the league table with 40 per cent of new equity inflows, followed by the US with 10 per cent. South Africa and The Netherlands have 9 per cent each, Portugal 8 per cent.

Invariably, the Portuguese are interested in reviving the businesses they owned before independence. Many of these were taken over by the state – the so-called intervened companies. South African investment is designed to open up new markets and exploit natural resource opportunities.

Investors can reckon on getting an answer from GPIE within three to six months of submitting an application. But the system, while a large improvement on what went before, is not without its flaws.

Its critics say the board is trying to do too much – seeking to invent new projects and find joint venture partners for foreign companies, rather than sticking to its narrow mandate of granting investment approvals. More serious is the complaint that the system of negotiating different investment agreements for each project inevitably means disparity of treatment for different investors. As a result, some feel they are getting a second class rate package, while the flexibility of such case-by-case approvals opens the door to backhanders and side payments.

Three activities dominate – agro-industrial projects, (such as Lonrho's Lomaco development); turnround activities by Portuguese companies reviving intervened companies and service activities (computers, telecommunications, tourism) and business advisory services, in which the South Africans are prominent. GPIE statistics show that 40 per cent of the new foreign capital ($126m including loan funds) has gone into agribusiness, roughly a third into tourism and 18 per cent to mining, including oil and gas.

Because each agreement is negotiated individually, there is no standard incentive package. Typical agreements include a three- to five-year tax holiday, unfettered remittability of dividends; no withholding taxes; no curbs on the employment of expatriates; and access to foreign currency accounts thereby enabling companies to import freely. Expatriates are entitled to tax-free status and can hold foreign-currency bank accounts, not subject to exchange controls.

There is no requirement to share equity with Mozambique nationals but the government prefers joint ventures that ensure that domestic owners hold at least 20 per cent of the equity.

public telecommunications services

national and international

COUNTRY CODE	258
area codes:	
MAPUTO	1
CHÓKWE	21
XAI-XAI	22
BEIRA	3
CHIMOIO	51
TETE AND SONGO	52
NAMPULA AND NACALA	6

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AGRICULTURE: a long wait to reap the harvest of peace

Wilting in the shadow of war

THE sad lessons of Mozambique's disastrous agricultural history since independence in 1975 are on display at a cotton and sisal estate at Namialo, in Nampula province, one of the country's richest agricultural areas.

"This is a museum to Soviet inefficiency and millions of dollars of wasted agricultural investment," said Mr Jose Ferreira Dos Santos, owner of Joao Ferreira Dos Santos, a diversified company. "If the Soviets were inefficient in running agriculture in Europe how could they not be in Africa?"

The car in which we were travelling had stopped briefly at a compound surrounded by high wire fence. Inside the rusting skeletons of Soviet made tractors, graders and combine harvesters lay abandoned – an expensive scrapmetal graveyard and a testament to years of agricultural folly.

The years since independence were marked by expensive capital intensive investment in inefficient state farms at the expense of providing infrastructure, services and foreign exchange for commercial and smallholder farmers; collectivisation of the peasantry into communal villages to work on state farms; application of inappropriate production technology; poor management; rigid state-determined pricing policies which discouraged smallholder production of export crops and marketing of surplus food crops and the impact of more than a decade of war which has displaced more than a third of the population and destroyed billions of dollars of infrastructure.

At Namialo the sisal plantations are overgrown with bush, many houses have been destroyed by rebel attacks, the hospital and schools are disused and decaying, the old sisal railway track is broken, most of the peasants around the estate who provided the bulk of the cotton have long deserted their land fleeing from bandits and the ginnery or cotton processing factory is in desperate need of rehabilitation. Production has ground to a halt.

It is a pattern repeated throughout the country. By 1985, cotton production was 9 per cent of its 1980 level, sugar 16 per cent, tea and cashew 30 per cent. According to the World Bank, between 1980 and 1986 the per capita production of the family sector of Cassava, Maize, Rice and Sorghum fell by between 25 and 45 per cent and the country became heavily dependent on external aid for food.

Although the war continues making agricultural recovery impossible many of the catastrophic policies implemented in the heady early days of independence have been abandoned, some in the early 1980s, and the Economic Recovery Programme is focused on the resuscitation of agriculture.

There is widespread recognition that future growth will depend on agriculture which contributes 40-50 per cent of gross domestic product, provides employment for 80 per cent of the population and contributes 80 per cent of export earnings.

Displaced workers in Zambezia province

Agricultural potential is good with fertile soils, normally adequate rainfall, vast swathes of unoccupied land which could be cultivated, and surface water resources which could irrigate 2m hectares of land. (Only 90,000 hectares of land is currently under irrigation.)

The main shift of the ERP has been to redirect government energy away from state farms towards the private smallholder and commercial farmers in an effort to increase domestic food production and increase exports.

The number of state farms has been reduced from 150 in 1986 to 109 in 1989, their assests broken up and distributed or transferred to the private sector. A number of agricultural joint ventures have been signed recently such as the estate at Namialo where Mr Joao Ferreira Dos Santos has moved back this year with full management autonomy and planted 14,000 tonnes of seed cotton.

Joint venture partners, especially in the cotton sub-sector, are providing the foreign exchange and management needed to restore exports. Lonrho (through Lomarco its joint venture with the government) has made the largest investments producing about 20,000 tonnes of cotton and 8,000 tonnes of tomatoes last year. But security costs, to pay for large private militias to guard estates, are estimated to be 15-20 per cent of the costs of production.

The real challenge is in reviving smallholder agriculture – the so called family sector – which traditionally accounted for 90 per cent of cashew production, and more than 50 per cent per cent of cotton, livestock, and copra and most of food crop production.

Much progress has been made on producer incentives. Cashew, cotton and copra and maize have been moved from a fixed price system to a minimum price system. Prices paid for export crops have been increased although they remain undervalued at a level of about 50 per cent of international prices. Producer prices for domestic food crops have been increased at nearer 80 per cent of international prices.

Consumer goods have been slowly reaching rural traders and stores providing better non-price incentives for production. Some imported goods are specifically targeted to coincide with cashew nut and cotton harvesting. Less progress has been made on vital rehabilitation of destroyed and decayed social and economic rural infrastructure.

Without a large rehabilitation of infrastructure and increased security it is recognised that Agricom, the state trading company which handles about 30 per cent of marketed production, will have to continue its role as the buyer of last resort until private traders can be encouraged to reach all areas. Results have been mixed. Agriculture production grew at 7 per cent in 1987 and 1988 but, with poor weather, dropped to 2-3 per cent in 1989.

Production of food crops is difficult to estimate due to the destroyed marketing system and the tendency of peasants to keep surplus production for storage or barter but maize production is believed to have risen 32 per cent between 1987-89.

Last year, marketed maize production was estimated at 78,437 tonnes, its highest level since 1984. However, aid still contributes more than 80 per cent of Mozambique's total grain supply. For 1991, the government is asking donors to provide total food aid of 1.04m tonnes – 65 per cent for the market sector.

On the export side between 1986-89, cotton production increased 192 per cent, cashew 26 per cent and sisal production increased 40 per cent on 1985 levels. Less success has been recorded in copra, tea, and sugar. In 1989, no leading export crop was producing a half of 1980 levels.

Since 1987, government policy towards the agriculture sector has come a long way. On the policy front, continued success will depend on maintaining price and non-price incentives to producers, developing agricultural extension services and rural infrastructure and continuing the commercialisation of the state sector.

If the war continues at its present level there will be modest gains. If a peace agreement is concluded progress will follow quickly. While providing seeds and tools to peasant farmers will prove a big constraint, getting people back to the land and having secure roads and railways will be a revolutionary event. Greater security will encourage increased investment in agro-industry. Agriculturalists predict that with peace Mozambique will become self sufficient in food within two or three harvests and export crops will take off.

Julian Ozanne

Julian Ozanne looks at the rehabilitation of the cashew sector

Project to combat neglect

THE cashew sector, like the rest of agriculture, has suffered badly as a result of misconceived policies and the war. However, a large effort is under way to rehabilitate the crop.

Mozambique was once the world's king of cashew, producing 216,000 tonnes from 60m trees in 1972. In that year, the country exported 69,500 tonnes of raw nuts and 25,400 tonnes of processed kernels.

By 1983, a nadir was reached when marketed production slumped to 18,000 tonnes. Since then, cashew nut production has increased slowly and reached about 50,000 tonnes in 1989, as a result of better producer prices and availability of consumer goods. Cashew contributed $18.9m in 1989 to total export earnings of $101.1m.

However, production slumped again in 1990 to 22,200 tonnes as a result of very poor weather conditions, according to Mr Juliano Saranga, the secretary of state for cashew.

The World Bank recently agreed funding for a Special Drawing Right of $16.8m for a cashew project for Gaza and Inhambane provinces which, it says, is the first phase of a long-term programme to rehabilitate the sector.

The project will compliment rehabilitation work under way in Nampula province funded by Denmark and the African Development Bank.

Mozambique was once the king of cashew

Cashew traditionally has been a smallholder crop providing a cash income to a half of Mozambique farmers who produced 90 per cent of total production intercroping cashew with staples such as maize, cassava and cow peas.

State controlled prices and an absence of consumer goods in rural stores encouraged small cashew farmers to eat their nuts or barter them for goods rather than sell them to the factories. The war destroyed the transport and marketing infrastructure and forced farmers to abandon their trees. Disease and pests moved in when the farmers quit their trees and many nuts have been left uncollected because of the war.

Cashew production remains constrained by the war and the long-term effect of sustained neglect – ageing trees, poor husbandry, lack of new plantings, extension services and research, and incessant bushfires. Yields are estimated to be as low as between 1 kg and 1.5 kg a tree. Annual average yields should be between 6 kg and 10 kg per tree with proper agrotechniques.

The World Bank project will concentrate on renovation of orchards, upgrading of agricultural services, provision of investment credit to commercial farmers and traders, improving the institutional capacity of government bodies in the cashew sector, training and rehabilitation of the processing industry. The projects are expected to lift export earnings by $12m.

Of Mozambique's 14 factories, which have an installed capacity of 150,000 tonnes, only eight are operating, two of which are in private hands. Present capacity is about 80,000 tonnes.

The government is committed to commercialisation of the cashew sector. State owned factories are to become autonomous entities and joint ventures are being encouraged. According to Mr Saranga, Anglo-American is negotiating a deal for two of the six state owned factories. "Management in the state sector is the major problem," he admits.

THE PRAWN INDUSTRY

Rare success for the state

SINCE 1982, prawns have been the number one foreign exchange earner regularly bringing in about $40m-$50m. In 1989, the prawn industry earned the country $39.4m out of total foreign exchange earnings of $101.1m.

Mozambique's fishing fleet is small, much of it inherited from Portuguese colonialists who fled the nation at independence in 1975. But joint venture and licensing agreements with Japanese, Soviet, South African and Spanish companies have proved remarkably successful in capitalising on the fishing resources of Mozambique.

Sound marketing strategies have been adopted in Europe (mostly Spain, Italy and France), Japan and South Africa. Pescom, a government owned company which has marketed much of Mozambique's prawn production, has proved one of the rare successes of state enterprise.

The prawn industry has been relatively insulated from the effects of the war although shortages of petroleum and power cuts have hurt the sector.

However, there are signs that the shallow-water prawn resources may be over-exploited and stocks of deep water prawn, lobster and crab are unknown. Last year, the government again placed a ban on the fishing of prawns from December 1 to January 31 in order to allow stocks to recover and increase. The targeted prawn catch for this year has been fixed at 7,500 tons, slightly less than that set for 1990. The industry is also facing increased competition from farmed prawns in Asia.

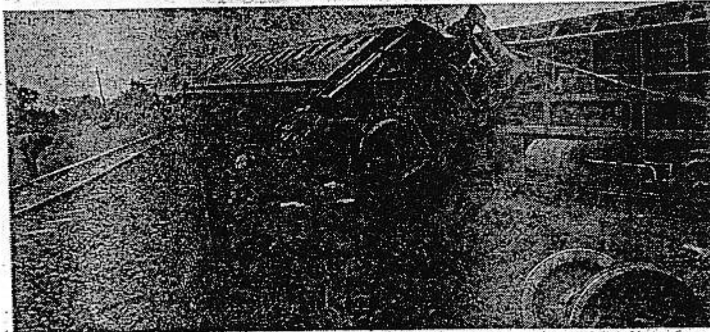
Foreign investment is being encouraged in the fishing sector, particularly in areas other than prawn. Good resources of crab, lobster, scad, mackerel, anchovy, sardine and tuna are believed to exist. But sea bream, grouper, octopus, oyster, snapper and mussel resources, mostly in northern fishing zones, remain particularly under exploited.

Partnerships are being invited for Mozambique's two fish canneries in Beira and Maputo which remain under supplied with raw material and trying to develop export potential in crab, clams and other molluscs.

Julian Ozanne

Julian Ozanne examines the attempts to renovate the railways and ports

Ceasefires unlock transit route doors



Train massacre at Movene in February that left 66 people dead, most of them miners

AT A shattered and oil-stained railway workshop in Nampula, the hub of Mozambique's northern Nacala line, mechanics work on engines riddled by bullet holes and bent by fires that were started by rebel saboteurs.

The wreckages of several engines litter the forecourt. Many will never see service again, they will be cannibalised for spare parts and abandonned.

Mozambique's railways, which provide vital access to its Indian Ocean ports for several land-locked African countries, have been the target of rebel attack over the last decade leaving the network almost destroyed.

By 1983, the Nacala line, which serves land-locked Malawi, was moving 12 per cent of the tonnage it moved in 1980, the Beira line serving Zimbabwe and Zambia was down to 32 per cent of 1980 levels and the southern lines connecting Maputo port with South Africa, Swaziland and Zimbabwe were handling 38 per cent of the traffic levels of 1980.

Two sources of transit trade have closed down either due to insecurity or maintenance – the Limpopo line targeted to attract traffic from southern Zimbabwe to Maputo and traffic from Malawi to the excellent deep water port of Nacala.

Total cargo handled by Mozambique's ports and railways fell to 4m tonnes in 1988 from 20m tonnes in 1973. Foreign exchange earnings to Mozambique from its ports and railways, which traditionally plugged the trade deficit in the balance of payments before independence, dropped from $112m in 1981 to $18.8m in 1986.

However, for the first time in a decade hopes are high that Mozambique will be able to recapture its role as an important transit route for regional trade.

A ceasefire for the Beira and Limpopo corridors was agreed in December between the government and **Renamo**, the rebel movement.

Under the accord Zimbabwean troops protecting the corridors from rebel attacks and sabotage are to be restricted to the corridors in return for a rebel promise not to attack the infrastructure.

The Nacala corridor has been almost completely free of attacks for 18 months, apparently the result of an unofficial agreement, and has been open for Malawi traffic for almost 12 months.

The important Goba and Ressano Garcia lines into Swaziland and South Africa are not covered by any agreement.

However, if the ceasefire accord holds up, greater security for the other corridors will allow faster services and the completion of maintenance and rehabilitation work which may help to win back the confidence of nervous state companies and businessmen in Zimbabwe, Malawi and Zambia.

The prospects for increased security come at a time when large infrastructure renovation projects have made significant progress. On the Limpopo line, a $130m project for a 534 km single line track from Maputo to Zimbabwe which has been closed since 1984, should be complete within the next 18 months.

Rerailing and resleepering work on 321 km of track has been completed southwards from Chicualacuala, on the border, to Chokwe.

Another team working north from Maputo with concrete sleepers and continuous welded track has completed 110 km, leaving just another 100 km to be completed to link Chokwe.

The line is being used for internal commercial traffic but so far no train service has been established to Zimbabwe.

Donors, particularly the British government which has supported the project to the tune of £29m, are pressing CFM, the state-owned railway company, to open a service. This may begin with one train a week to demonstrate the viability of the line and win back much needed confidence in Mozambique.

Work on the Nacala line by a French-Portuguese consortium, which was suspended in 1988 due to insecurity, is to start imminently rehabilitating the 280 km line from Nampula to Cuamba with concrete sleepers and continuous welded track.

A minimal service of one or two every fortnight started operating last year allowing Malawian cargo to reach Nacala.

There are signs that the previous imbalance between imports and exports is being closed, reflecting higher confidence in Malawi about the security of the line.

Substantial renovation and upgrading work has been completed on the $700m Beira corridor programme increasing cargo handling figures, especially from Zimbabwe.

Total traffic has increased from about 1m tonnes in 1986 to 2.6m tonnes last year and work on dredging the 25 km channel has been completed to allow 60,000 ton vessels to use the port.

Rebuilding Beira's 11 berths is expected to be finished by the end of this year and construction of a new oil terminal is to start soon.

Japan, Canada, France and the US have also pledged more than 20 locomotives for delivery over the next three years.

Many of the projects in Mozambique's transport sector have been the result of initiatives launched by the South African Development Co-ordination Conference aimed at reducing the region's dependence on South Africa. With political changes looming in South Africa that strategy is being reconsidered.

Furthermore, their are worries about competition from a more respectable South Africa with more efficient ports and shipping operations.

This is being seriously considered given the inefficient state of management and software at Mozambique's ports.

However, the chances of attracting high value cargo will depend on a much smoother operation and better management at the ports.

BUSINESS GUIDE

City returns to life

FEW capitals in Africa have been through such an ordeal of economic devastation and war-induced decay as Maputo, the Indian Ocean capital of Mozambique built by the Portuguese colonialists as a Mediterranean-style resort city.

In spite of all the traumas of the past 15 years Mozambicans have maintained their pride in the cosmopolitan capital and now, with economic reform and the beginings of new foreign investment, life is returning to the city.

Among the most optimistic signs of renovation in Maputo are the extensive refurbishment programmes due to be completed this year of the Polana (tel 491001-7, tlx 6278), a magnificent white washed seaside hotel built in the style of the 1920s De Luxe hotels on the riviera, the Cardoso (tel 74107, tlx 6327) and the Moçambicana.

All three hotels are privately owned and are being rehabilitated and managed by foreign investors – the Polana, at a cost of R27m, by the South African Karros group, the Cardoso by the Lonrho conglomerate and the Moçambicana by the South African Protea group. Other decent hotels are the Andalucia (tel 23051, tx 6426) and the Tivoli (tel 22005, tx 6297) and in Beira go to the Dom Carlos (tel 711158).

Doing business can be difficult but help and advise can be obtained.

The government's GIPE, foreign investment promotion office, (tel 742173, 422459 tx 6650) is in charge of facilitating and improving all new projects. A private consulting company, SARL (tel 33456, tx 6762) can also aid foreign investors and find local partners for joint venture companies. SARL publishes a fortnightly business newsletter called Mozambique Opportunities.

In agriculture, SAFI (tel 492043) and SCPI would be useful. Other important contacts are the Chamber of Commerce (tel 741970, 491970 tx 6498), UCPI, commodity import programme co-ordinators (tel 420979, 491146) and AIMO, association of Mozambican industries (tel 424659 tx 6220).

Other useful contacts; Ministries: Finance (25071), Commerce (420171), Agriculture (460014), Mineral Resources (424031), Secretary of State for Fisheries (34345), Transport (30121), Industry (31029), Co-operation (490672).

Banks: Banco de Mozambique – Central Bank (424620, tx 6240), Banco Standard Totta – the only private bank (428107, tx 6223), Banco Popular de Desenvolvimento (428892, tx 6250).

Diplomatic Missions: UK (420111-7, tx 6265), US (492794, tx 6143), Germany (742296 tx 6489), France (tel 743444 tx 6307), Portugal (744142, tx 6341), European Community (490266, tx 6146), South African Trade Mission (741404).

Transport: taxis have been scarce in Maputo but a fleet of 400 Peugeot 405 taxis are due for Maputo, Beira and Nampula this year. Cars can be rented from Interfranca (490621), Hertz (491001) and Avis (465140). For internal flights LAM (732141), the national air carrier, runs a regular but often disrupted, service. A recently established excellent private charter company Nat Air (491811, tx 6763) joins other charter companies TTA (465015), LAM (465024) and LOMARCO (429260).

Freight and Shipping: Manica (423080), Mocargo (430859), Navique (423118), Navinter (420983).

Restaurants: increasing business has brought better restaurants such as the Sheik (490197) and Mini-Golf (490282) which have fun discos, Costa do Sol (455115) for prawns and seafood, Maritimo (741345) for weekend lunchtime barbecues and several superb Chinese restaurants.

Boats can be hired at Clube Naval (492121). Other excursions can be booked through Empresa Nacional de Turismo (425011).

Julian Ozanne

KEY FACTS

Area	799,380 sq km
Population	15.3m
Head of State	Pres. Joaquim Alberto Chissano
Currency	100 centavos = 1 metical
Exch Rate (year end)	1,044.64 meticais/$

ECONOMY

	1989	1990
Total GDP ($bn)	1.3	1.2
Real GNP growth (%)	4.0	5.6
GDP per capita ($)	80	80
Exports ($m)	+101	+120
Imports ($m)	-775	-870
Trade Balance ($m)	-674	-750
Service earnings ($m)	+156	+180
Outflows ($m)	-224	-280
Current Account Balance ($m)	-752	-850
Capital Account ($m)	+355	+350
Overall Deficit ($m)	-395	-500
Trade Dependency* (%)	67.4	82.5
Inflation (%)	42.1	NA
Debt	1987	1988
Total debt as % of GNP	344.4	436.0
Debt Service as % of Exports	22.6	31.6
Net Flows* ($m)	395	133
Education	1965	1987
% enrolled in primary	37	68
% enrolled in secondary	3	5
% enrolled in tertiary	0	0

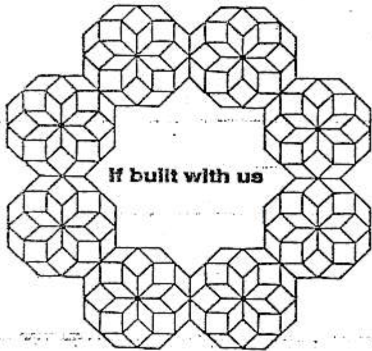
* Exports plus imports as % of GNP
* Net Transfers are net debt disbursements minus principal and debt service repayments

Source: IMF, World Bank, Economist Intelligence Unit

MINING

Mozambique from its ports and projects have made significant

big future, no fuss



THE BUILDING CONTRACTORS IN MOZAMBIQUE

MINING

Schemes to tap export potential

MINING, never a big player in the Mozambique economy, is increasingly believed to have exciting potential in a post-war environment. Some of the leading projects on the drawing boards could transform the country's export profile by the turn of the century.

At independence there were some 10 small producing mines. The Moatize coal mine, with 500,000 tonnes annual output, was easily the largest. Tantalum was the only other significant mineral being exploited and mining's contribution to gross domestic product was never more than 1 per cent.

Post-independence strategy focused on geological exploration and the re-evaluation of the existing mines. As the war worsened in the 1980s, exploration was cut back and the mines and their supporting infrastructure were destroyed. Output fell 80 per cent between 1981 and 1985 but has since rebounded – production trebled in 1987/8 but remained 30 per cent below its 1981 peak.

Tax incentives, privatisation and a new state-owned mining development company – Companhia de Desenvolvimento Mineral which will hold the government's mining investments – are the chosen vehicles for reviving the industry. Two small companies, a copper producer and the bentonite mine have been privatised.

Mozambique has the world's largest known reserves of tantalum. In 1986, production of some 75 tonnes was halted when the mines were seriously damaged in rebel attacks. It will cost $30m to revive them and expand output to 150 tonnes a year by 1992.

New development is spearheaded by two projects to exploit heavy black sands deposits.

Johannesburg Consolidated Investments has taken up an option from the Irish Kenmare group to develop the $103m Congolone project near Angoche in the north. A feasibility study suggested that the project could earn $44m a year from exploiting ilmenite deposits used in paint production and refractories. Edlow Resources, a US company, has a 27-year concession to develop titanium-bearing sand deposits that could justify a $450m investment.

According to the Washington-based Gold Institute, Mozambique and Botswana will be the world's fastest growing gold producers in the 1990s, albeit from a tiny base. Mozambique's production is projected to quadruple from 10,000 ounces in 1990 to 40,000 ounces by 1993. More than $12m, including infrastructure investment, has been spent on Lonrho's alluvial gold mine at Manica, which came on stream last year.

Rockwood Holdings and Cluff Resources, both based in the UK, have 40 per cent stakes in investigating diatomite deposits near Maputo, and over $3m has been spent on modernising the Italian-owned marble plant in Cabo Delgado.

By the mid-1990s, these projects could have an export capacity well above $100m – effectively double the country's 1990 exports.

Tony Hawkins

FINANCIAL TIMES

1990 RELATED SURVEYS

Nigeria	March 19
Namibia	March 22
Egypt	April 4
South Africa	June 11
Saudi Arabia	Dec 12
Algeria	January
Nigeria	February
Southern African Minerals	March
Egypt	April
South Africa	July

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from europe to mozambique the quick way

Paris
Lisbon
Maputo

	WED	SAT	SAT	MON
MAPUTO	20.00	09.30	20.00	08.40
LISBON	05.30	21.00		
	07.10	19.30		
MADRID	09.20	19.20		
PARIS			07.00	20.40
			08.25	18.40
COPENH			10.30	16.35
			11.25	15.45
BERLIN			12.25	14.50
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9.30
12.30