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# Prime Minister visits China

Prime Minister Aires Aly on 21 June told reporters that his five-day visit to China has surpassed expectations, and that he is convinced that the Chinese authorities will give all possible support to accelerate the development of Mozambique. The Prime Minister said that the grants and interest free bank loans announced during his visit have reaffirmed China's friendship and solidarity with the Mozambican people.

"During all the meetings I had, both with my Chinese counterpart, Wen Jibao, and with the other leaders of this country, they left me convinced that China remains a true friend of the Mozambican people, and that they are more than ever determined to support our development, just as they supported us during our struggle against Portuguese colonialism", said Ali.

The Prime Minister stressed that the Chinese government keeps its promises. In its relations with Mozambique, China has always kept its word, and has never let Mozambique down. He recalled that over the previous five years, when he was Minister of Education, he visited China and the agreements he made with the Chinese authorities then were scrupulously honoured. Some of the projects he had agreed then are currently under construction with Chinese aid – such as the building of a new Visual Arts School in Maputo.

China has financed several other major buildings in the Mozambican capital – notably the Joaquim Chissano Conference Centre, the new Foreign Ministry headquarters, and the National Sports Stadium that is now nearing completion

Ali brought to China a portfolio of 26 projects, implementation of which is budgeted at $1.2 billion. When these were presented at the negotiating table, the Chinese side showed a willingness to finance them. Ali said there was a consensus that this portfolio would serve as a basis for cooperation in the next four years.

The top priorities are projects that will be implemented with the $172 million that were guaranteed during this visit. They include the second and final phase of the modernization of Maputo International Airport ($65 million), a cement factory in Sofala provinces with the capacity to produce 500,000 tonnes of cement a year ($80 million), and a cotton processing factory in Magude, in Maputo province ($20 million).

In addition to the 26 projects in the portfolio, there are others, not presented during this visit, valued at $600 million. Aly said these would be analysed at the next round of negotiations.

### Businesses invited to invest

Prime Minister Aly on 22 June met with businessmen from Shanghai who plan to visit Mozambique in July in search of investment opportunities. The group included Cao Hongru, chairman of the board of the China Tongjian Investment company, who will lead the 50-member delegation to Mozambique.

In their meeting with Aly, the businessmen who include the owners or managers of some of the largest Chinese companies said they were very optimistic about Mozambique's economic potential.

Aly told the businessmen he was sure that, once they had seen the opportunities available in Mozambique, they would have no doubt that "this is the country for your capital".

The Mozambican government wanted to waste no time, he added, and was well aware of the ability of Chinese companies to take decisions rapidly and to complete projects in record time.

He recalled that the Mayor of Shanghai had told him that, during the modernization of Shanghai, some projects were scheduled to take ten years, but were completed in three. He challenged the Chinese businessmen to do the same in Mozambique.

Instead of investing $1.3 billion in the next five years, Aly suggested they raise this sum to $12 billion. They replied that this would indeed be possible.

## Donors present funding commitments for 2011

The 19 donors and funding agencies that provide direct support to the Mozambican state budget on 16 June announced budget support of $412.4 million for 2011.

At first sight, this is a substantial reduction on the $471.8 million pledged for 2010. However, three of the donors (Denmark, Germany and Portugal) had not yet to announce their 2011 commitments, because they are waiting for parliamentary or ministerial approval.

If the pledges from these three countries are the same as for 2010 (Germany announced on 21 June that it would keep its contribution at the same level as this year), that will bring the 2011 total up to $445 million.

The money for 2010 included an additional $25 million from the World Bank, granted at the Mozambican government's request, in response to the international financial crisis. For 2011, the World Bank contribution returns to the base level of its Poverty Reduction Support Credit (PRSC), which is $85 million a year.

Thus, overall the budget support group (known as the G-19, or the Programme Aid Partners – PAPs) is keeping its support steady. Eleven of the group are maintaining their commitments at the 2010 level, and two (Italy and Britain) have increased their aid slightly. Two donors have cut their budget support – Switzerland from 7.5 to 4.5 million Swiss francs, and Sweden from 320 to 315 million Swedish crowns.

In addition, the G-19 promised $262.9 million in programme aid to sectors and common funds for 2011. There are 15 of these funds, of which the most significant are PROSAUDE (for health care), FASE (for education), PRISE (for roads), and PROAGRI (for agriculture).

The commitments to the common funds have fallen substantially, since $334.9 million was promised for 2010. At the ceremony, delivering the commitments, the outgoing G-19 chairperson, Finnish ambassador Kari Alanko, pointed out that in some cases specific activities financed by the common funds have ended. In others, donors had ended their participation in some funds, according to a previously agreed division of labour, without being replaced by anybody else.

However, there were also delays in publishing audit reports from some of the funds, which caused headaches for the donors when it came to making promises for future funding. Alanko warned that donor pledges to PROSAUDE are provisional "and will be confirmed after a satisfactory assessment of the final audit for 2008".

The commitments announced follow May's conclusion of the annual review of progress between the government and the G-19. This, Alanko recalled, decided "that there is a satisfactory basis for the PAPs to continue with budget support".

"Our commitment represents our contribution to poverty reduction and to the development of Mozambique", said Alanko. He thought it important to reverse the trend towards "increased inequalities in terms of rent and access to basic services, as well as vulnerability and food insecurity".

"A rapid and substantial reduction in poverty", he added, "requires additional efforts in the future".

Receiving the G-19 commitments, the Minister of Planning and Development, Aiuba Cuereneia, said he was pleased to note, "despite the unfavourable economic environment, resulting from the world financial crisis, our partners remain firm in honouring undertakings given for general budget support".

He said that 56 per cent of the 2010 budget is funded by Mozambique's own resources, with the rest from foreign grants and loans. He put the G-19 contribution to the budget at 11.8 per cent (8.4 per cent in grants, and 3.4 per cent in loans).

Cuereneia stressed that, despite the international crisis, in 2009 the Mozambican economy had grown by over six per cent, and the average 12-monthly inflation rate had been held to 3.3 per cent.

## Six bids for hydrocarbon exploration

Six foreign companies or consortia have presented bids in the fourth public tender for granting hydrocarbon exploration and production blocks in various parts of Mozambique, according to the country's National Petroleum Institute (INP).

The Aguia Energy consortium, formed by the companies Tlou Energy and Saber Energy Group of Australia, applied for areas in the middle and lower Zambezi Valley, and in Maniamba in the northern province of Niassa.

A second consortium, formed of the US/Mauritian company Swiss Oil Holdings International, and Spotswood Petroleum (registered in the British Virgin Islands, a Caribbean tax haven), applied for the Mazenga Graben and Limpopo areas in the south of the country.

DNO International of Norway put in a bid for the Lower Zambezi, while New Age (African Global Energy), registered in the British tax haven of Jersey, applied for the Banhine and Palmeiras areas in the south.

Sasol Petroleum International of South Africa also applied for Banhine and Mazenga, and Touchstone Oil and Gas of Canada put is a third bid for Mazenga.

The tender was launched on 4 November 2009, and the bids will now be assessed based on the criteria presented in the tender documents, which include the competence and technical capacity of the companies, their financial strength, and the economic benefits they offer.

The INP expects to announce the successful bidders by the end of September.

Hydrocarbon exploration currently under way is concentrated in the Rovuma Basin in the far north of the country. The companies operating here are Artumas (Canada), Anadarko (US), Petronas (Malaysia), ENI (Italy) and Norsk Hydro (Norway).

### Plan to build 600 new houses

The Mozambican government's Housing Promotion Fund (FFH) is planning to build 600 houses in the cities of Maputo, Matola, Beira, Quelimane, and Nampula by next year. During this period, FFH is also planning to grant 1,500 loans to people who want to build their own houses, with the assistance of extensionists from the housing sector.

The institution is also prepared to take part in the installation of basic infrastructures, by the end of next year, on 20,000 plots of land in municipalities, towns and districts across the country in coordination with the municipal authorities and the electricity and water supply companies.

The estimated cost of this work is about two billion meticais ($58 million) to be made available after the signing of an agreement with the Public Works and Housing Ministry.

According to the chairperson of the FFH board of directors, Rui Costa, potential beneficiaries of this project are qualified technical staff and low-income families.

Commenting on the bad loans from FFH beneficiaries, Costa said, "our reimbursement rate is about 70 per cent. Thus we feel that there have been problems, but we have been finding ways to create conditions for our clients to repay the loans they receive".

"In previous years, the reimbursement rate was very low, and the institution had to design a strategy of awareness among our clients to honour their commitment", he added.

### Chissano launches housing project

The Joaquim Chissano Foundation (FJC) on 21 June in Maputo launched a $100 million project to build 1,836 homes for young people.

The "Casa Jovem" ("Houses for Youth") project is the first major investment proposed by the FJC, which was set up by the country's former president, Joaquim Chissano, shortly after he left office in 2005. The project has been designed by the company Charas Ltd, and will be implemented by the real estate development firm ImoX.

The 1,836 apartments will be in a condominium in the outlying Maputo suburb of Costa do Sol. The condominium will also include shops, banks, a children's playground, sports fields and a police station.

There will be four types of homes. The cheapest will cost $25,000 and the most expensive $120,000.

Speaking at the launch, Chissano said the project would have a positive "and perhaps even lasting" impact on the lives of the beneficiaries.

"I am fully aware that the housing problem is national in scale and affects the majority of Mozambicans, particularly young people", he said. "So we are launching the Casa Jovem project aware that we are contributing to solving only part of the problem – in fact, a very small part of a huge problem. But this is only the start of our participation, as partners, in the gradual solution of a problem that affects all of us".

Erik Charas, of the company Charas Lda, explained that the beneficiaries would be people up to 40 years of age with an income.

Repaying a mortgage is out of the question for the vast majority of Mozambicans. Charas said that a couple with a joint income of 25,000 meticais ($730) a month would be able to pay off a mortgage on one of these homes over 30 years.

By Mozambican standards this is a large sum. The statutory minimum monthly wages announced in April range between 1,593 and 3,483 meticais, depending on sector of activity.

### 6.7 million pupils at school

The number of pupils attending Mozambican schools has grown from 4.6 million in 2004 to 6.7 million last year, an increase of 47.2 per cent, according to Education Minister Zeferino Martins.

Addressing the opening session of his Ministry's Annual Planning Meeting on 21 June, Martins said the school network had expanded at all levels. In particular, there was now substantial expansion in secondary education, allowing more pupils who complete the full seven grades of primary education to continue studying at secondary level.

"Despite the advances made, there remain many complex challenges that should merit our permanent concern and effort", said Martins. Of particular concern was the quality of education, which had not improved in line with the physical growth of the school system.

The planning of educational activities for 2011, and for the entire 2010-2014 five year period, should be "prudent and realistic", said the Minister. He warned that the current foreign aid scenario "is not favourable", and stressed the need for austerity and better distribution of the funds available.

"Our planning should also consider the need to capitalise and increase our own revenue, particularly in state institutions", he said, "and at the same time we must improve the quality of services provided".

The report on school performance in 2009 presented to the meeting warned of high failure rates in the first cycle of general secondary education (8th to 10th grades). The situation appears to have worsened, with a smaller percentage of pupils passing the 10th grade exams now than three years ago.

In 2007, 61.4 per cent of tenth grade pupils passed the exam, and so could continue to the second, pre-university cycle of secondary education (11th and 12th grades). In 2008, the figure rose to 68.1 per cent – but then collapsed to 58.5 per cent in 2009.

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

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## National Investment Bank created

The Mozambican and Portuguese governments formalized in Maputo on 14 June the creation of the National Investment Bank (BNI). The bank has share capital of $500 million and is to focus its activities on long-term investments, mainly infrastructures, in Mozambique. It plans to start operations before the end of this year.

The Mozambican and Portuguese states each hold 49.5 per cent of the shares in the new bank, and the remaining one per cent belongs to the Commercial and Investment Bank (BCI), the second largest commercial bank in Mozambique. The main shareholder in the BCI is the Portuguese state bank, the Caixa Geral de Depositos (CGD).

BNI plans to start immediately financing two projects, namely the new electricity transmission line from Tete province to Maputo, and the second power station at the Cahora Bassa dam on the Zambezi.

The existing transmission line from Cahora Bassa does not go to Maputo. It goes straight to the Apollo sub-station in South Africa. For many years some of the Cahora Bassa power was re-routed to Maputo and the rest of southern Mozambique along a line owned by the South African power utility, Eskom.

The existing line is inadequate to carry the large amounts of energy that will be generated in Tete in the near future. In addition to a second power station at Cahora Bassa, a new dam with a 1,500-megawatt generating capacity is planned at Mepanda Nkuwa, about 60 kilometres downstream from Cahora Bassa, and two coal-fired power stations are planned.

Without a new transmission line, Mepanda Nkuwa and the coal-fired stations are not viable. The cost of the new line is put at $2.4 billion - $1.8 billion in the first phase and $600 million in phase two.

The new Cahora Bassa power station on the north bank of the Zambezi – which will almost certainly not be built until Mepanda Nkuwa is complete – is costed at $700 million.

A further project which BNI might finance is a bridge across the bay of Maputo, linking the heart of the city to the neighbourhood of Catembe.

Only Mozambican or Portuguese companies will be eligible for financing from the new bank.

The three shareholders have chosen former governor of the Bank of Mozambique, Adriano Maleiane, to head the Executive Commission of the BNI. His appointment is awaiting formal approval by the Bank of Mozambique.

## New leadership for CFM

The government on 14 June appointed Rosario Mualeia, the former deputy Tourism Minister, as the new chairperson of the board of directors of the publicly owned Mozambican Ports and Railways Company (CFM).

Fisheries Minister Victor Borges, acting as spokesperson for the government, announced the decision to reporters at the end of a cabinet meeting.

Mualeia replaces Rui Fonseca, who had been chairperson of CFM for the past 13 years. Fonseca had steered the company through a difficult period of restructuring and labour rationalization.

He also carried out the government policy of farming out port terminals and railway lines to private management. But only in Beira port, currently run by the Dutch company Cornelder, has this been an undoubted success.

Fonseca repeatedly criticized the other leaseholders, notably the Maputo Port Development Company (MPDC), and the Northern Development Corridor (CDN) for failing to meet their obligations.

Mualeia is not a newcomer to railways and to CFM. He trained as a civil engineer, specialising in rail transport, with the French rail company, SNCF. He was also director of CFM's Northern Improvements Brigade, working on the Nacala-Malawi line.

From 1995 to 2000, Mualeia was governor of Nampula province, and from 2000-2005 governor of Gaza. In 2005, President Armando Guebuza appointed him Deputy Minister of Tourism.

The government also decided to extend the lease on Maputo port to MPDC for a further 15 years. The main shareholder in MPDC was initially the British Mersey Docks and Harbour Company, and Fonseca was ferociously critical of its mismanagement and its failure to pay rent to CFM, as stipulated in the contract.

However, the British company pulled out in 2008 and the main private shareholders are now Dubai Ports World and Grindrod of South Africa. The original 15-year lease for MPDC took effect as from 2003.

Borges claimed that the extension of the lease would allow further investment in the port of around $750 million.

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