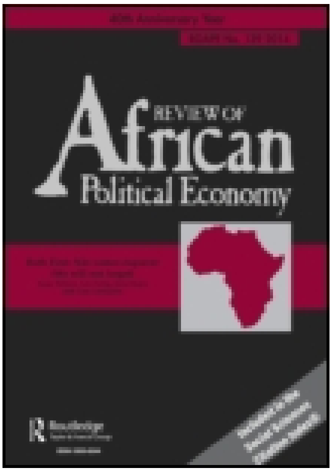

Review of African Political Economy
Publication details, including instructions for authors and subscription information:
http://www.tandfonline.com/loi/crea20

Growth, capital accumulation and economic porosity in Mozambique: social losses, private gains

Carlos Nuno Castel-Branco[a]

[a] Economics & Development Research Group, Institute for Social and Economic Studies (IESE), and Faculty of Economics, Eduardo Mondlane University, Maputo, Mozambique

Published online: 14 Jan 2015.

Review of African Political Economy, 2014
Vol. 41, No. S1, S26–S48, http://dx.doi.org/10.1080/03056244.2014.976363

Routledge
Taylor & Francis Group

Growth, capital accumulation and economic porosity in Mozambique: social losses, private gains[1]

Carlos Nuno Castel-Branco*

Economics & Development Research Group, Institute for Social and Economic Studies (IESE), and Faculty of Economics, Eduardo Mondlane University, Maputo, Mozambique

The Mozambican economy has been growing at an annual average of 7.5% for the best part of two decades, and has become one of the three most attractive economies for foreign direct investment (FDI) in sub-Saharan Africa. Yet, it has been ineffective and inefficient at reducing poverty and providing a broader social and economic basis for development. It is argued here that the dominant political economy of Mozambique is focused on three fundamental and interlinked processes, namely the maximisation of inflows of foreign capital – FDI or commercial loans – without political conditionality; the development of linkages between these capital inflows and the domestic process of accumulation and the formation of national capitalist classes; and the reproduction of a labour system in which the workforce is remunerated at below its social cost of subsistence and families have to bear the responsibility for maintaining (especially feeding) the wage-earning workers by complementing their wages or trying to maintain the availability of the enormous idle reserve of labour. This article focuses on economic porosity, which, arguably, is a dominant factor in promoting the linkages between domestic and foreign capital, nurtured, supported and mediated by the state.

Keywords: Mozambique; growth; accumulation; porosity; financialization; FDI; linkages

[Croissance, accumulation du capital et porosité économique au Mozambique: pertes sociales, bénéfices privés.] L'économie mozambicaine croit à un taux annuel de 7,5 % depuis presque deux décennies, et est devenue une des trois économies les plus attractives pour les investissements directs à l'étranger (IDE) en Afrique subsaharienne. Cependant, elle a été inefficace et inefficiente en matière de réduction de la pauvreté et de construction d'une base sociale et économique large pour le développement. Il est avancé que l'économie politique dominante du Mozambique s'est concentrée sur trois processus fondamentaux et reliés entre eux, notamment la maximisation des flux de capitaux étrangers – IDE ou prêts commerciaux – sans conditionnalité politique ; le développement de liens entre ces flux de capitaux et le processus au niveau interne d'accumulation et la formation de classes capitalistes dans le pays ; et la reproduction d'un système de travail dans lequel la main d'œuvre est rémunérée à un niveau inférieur au coût social de subsistance ce qui implique que les familles doivent supporter la responsabilité du maintien (en particulier au niveau de l'alimentation) des travailleurs salariés en complétant leurs salaires ou en tentant de maintenir la disponibilité de la réserve énorme de travailleurs inoccupés. Cet article se concentre sur la porosité économique qui, probablement, est un facteur dominant de promotion des liens entre les capitaux étrangers et nationaux nourris, soutenus et arbitrés par l'État.

Mots-clés : Mozambique ; croissance ; accumulation ; porosité ; financiarisation ; IDE ; liens

*Email: carlos.castelbranco@gmail.com

Introduction

The Mozambican economy has been growing at an annual average of 7.5% for the best part of two decades, and has become one of the three most attractive economies for foreign direct investment (FDI) in sub-Saharan Africa. Yet, it has been ineffective and inefficient at reducing poverty and providing a broader social and economic basis for development. It is argued here that the dominant political economy of Mozambique is focused on three fundamental and interlinked processes, namely the maximisation of inflows of foreign capital – FDI or commercial loans – without political conditionality; the development of linkages between these capital inflows and the domestic process of accumulation and the formation of national capitalist classes; and the reproduction of a labour system in which the workforce is remunerated at below its social cost of subsistence and families have to bear the responsibility for maintaining (especially feeding) the wage-earning workers by complementing their wages or trying to maintain the availability of the enormous idle reserve of labour. This article focuses on economic porosity, which, arguably, is a dominant factor in promoting the linkages between domestic and foreign capital, nurtured, supported and mediated by the state (Castel-Branco forthcoming).

Porosity may be partially created and maintained by weak institutions and capabilities, but it is also a central component in the tripartite relationship between the state and multinational and domestic financial oligarchies. Hence, porosity is not only an absolute loss of income to economies abroad, but it is also part of the process of social expropriation (including the expropriation of the state) for the benefit of developing a national capitalist class – hence, a social loss for private gain. The social and historical dynamics of accumulation that drive porosity also drive the construction of extractive and narrow structures of production and trade, the development of a speculative financial system and mode of accumulation, and socially regressive choices about public financing and expenditure. Therefore, the so-called Mozambican growth miracle is based on the promotion of a triple alliance between the state, domestic and multinational financial capital, expanding capital accumulation in Mozambique, which partly explains the appetite of the government for more resources and capital, no matter how much they cost or how and what they are utilised for. The 'mirage' side of the debate, which is the other side of the 'miracle', is shown in the extractive, porous and vulnerable character of the process of capitalist development that generates poverty and exclusion, and that becomes less efficient at addressing broader social and economic development challenges, including poverty reduction, even as the rate of growth of the economy accelerates.

The long-standing debate about the appropriation of surplus from mega-projects (mostly, associated with the minerals–energy complex) in Mozambique captures an essential part of the dynamics of porosity. The debate has intensified as new discoveries of resources are announced and the public becomes more aware of the contradiction between the production of surplus and its private appropriation. The government's response to the growing pressure of public opinion on the need for a renegotiation of the mega-project contracts is contradictory, varying from unconditional support for the social appropriation of earnings from public resources to lukewarm support or flat rejection of the idea, based on the flawed argument that there is no surplus to be redistributed yet. Ironically, while claiming that social demands related to socialisation and redistribution of surplus already generated by mega-projects are unrealistic and that, therefore, social expectations related to social appropriation of the benefits from mega-projects should be managed or reduced, the government is utilising expectations of future income that is still years away from being generated as guarantees for current commercial indebtedness that favours large capital accumulation. The government's preference for social porosity and private appropriation of surplus suggests that the porosity of the economy plays a strategic role in accelerating private capital accumulation, which has become the focus of public policy and its interaction with private capital.

The article starts with a discussion of economic porosity and its relationship with the strategy of capital accumulation in Mozambique. The next section describes and discusses the mechanisms and magnitude of porosity, focusing on taxation of corporate income and capital gains, licit and illicit capital flight and public debt, the role they play in the process of capital accumulation, and the broader implications for the economy as a whole. This is followed by another section that discusses the interaction between porosity and the financial system, particularly how it helps to shape an increasingly speculative financial system which, in turn, helps to reproduce the economic conditions of porosity. The final section draws attention to general implications of porosity and to the debate about policy options for change.

Economic porosity as a strategy for primitive capital accumulation

Economic porosity is an inefficiency in retaining uncommitted surplus that could be utilised for the reproduction of the economy as a whole (Castel-Branco 2010). Porosity can be understood in two ways. On the one hand, it can be seen as outflows of surplus that could otherwise be socially appropriated for the development of the domestic economy as a whole – in this case, the outflow would favour foreign capital as opposed to domestic dynamics of accumulation, and would most likely be captured, *ceteris paribus*, by the gross domestic product (GDP) being larger than the gross national income (GNI). On the other hand, porosity can also be a mechanism for transferring public resources and income to promote domestic and global private capital accumulation, particularly during its early phases (primitive capitalist accumulation) or during a crisis (Fine 2009, 2012; Marx 1976). In this case, porosity may be better defined as a way of expropriating the state and the society at large for private gains, requiring the subordination of broader public policy to market interests. Porosity may not be fully captured by the difference between GDP and GNI, as part of the social loss of surplus becomes a private gain in profits, interest and rents accruing to national capitalists who may deploy them in the domestic economy. In this case, porosity may be demonstrated by its impact on fiscal and monetary conditions, the inability of the state to pursue broader social and economic goals despite a general and significant increase in available surplus (Fine 2009, 2012) and by narrow patterns of public and private links and investment (Castel-Branco 2010, forthcoming).

The obvious direct impact of economic porosity is a difficulty in mobilising resources for broad-based social and economic development which contributes to the common 'paradox' of uneven development of capitalism between and within economies (Lenin 2010). However, another impact of porosity may be the creation of domestic financial oligarchies independently of, or alternatively very closely dependent on, foreign capital, in association with the continuous expansion of areas for commoditisation and generation of private profits (Luxemburg 2003). Hence, it is fundamental to understand the social dynamics of porosity as these may not be simple technical flaws in the system of accounts or some known form of multinational extraction of wealth at a cost for the domestic economy that results from tax incentives, illicit capital flight, low rates of reinvestment of private capital and so on.

Mozambique is a latecomer with respect to the development of its national capitalist classes. Direct colonialism, with large migration of Portuguese settlers and traders from

South and East Asia, associated with massive land expropriation and restrictions in access to capital, conspired to shape the development of small, fragmented and financially weak national entrepreneurial groups. For most of the colonial period, the dominant dynamics of social differentiation were associated with migrant labour, terms of border trade and links with the colonial state apparatus in various ways (O'Laughlin 1981, 1996; Wuyts 1981). The anti-capitalist stand of the first Mozambican government after independence as well as the economic blockade by the apartheid regime that affected the recruitment of migrant workers and the level of employment at the Maputo Port encouraged speculative accumulation to occur, particularly in rural trade dominated by Mozambicans of Asian origin, but negatively affected the development of productive capital amongst Mozambicans (CEA 1979; Mackintosh 1987; O'Laughlin 1981, 1996; Wuyts 1989).

The introduction of the economic rehabilitation programme (PRE),[2] in 1987, was the first systematic and large-scale opportunity for the development of national capitalist classes through massive privatisation of state assets, as more than one thousand state-owned enterprises and state shares in many more companies were privatised. Larger and more viable firms were sold to foreign investors in order to restart production and generation of jobs, tax revenue and foreign currency. Smaller and more obsolete firms (approximately 80% of the total) were sold, at low cost, to Mozambican emerging entrepreneurs, who largely came from the group of managers of state-owned companies, veterans of the liberation struggle and traders. Apart from the implicit subsidy on the price of the assets privatised to Mozambicans, which was inflated by most Mozambican buyers paying no more than 20% of the agreed price for the assets acquired, there were no specific policies and support mechanisms in place to help the rehabilitation and development of these firms. As a result, more than 40% of the firms went bankrupt within five years of privatisation; more than half of the remaining were traded for cash or shares or transformed into warehouses, and the state could not raise the expected additional revenue from massive selling of its property (Castel-Branco and Cramer 2003; Cramer 2001; UTRE 1996, 1999; World Bank 1996). Combined with bank fraud (Hanlon 2001), privatisation of state assets to aspiring and emerging Mozambican entrepreneurs was, largely, a strategy to accommodate increasing social pressure from political and economic elites to enable the formation of new domestic classes of private owners of economic assets (Castel-Branco forthcoming). This massive privatisation of public assets and capital with few social gains was the first instance of large expropriation of the state, by the state, for private gain.

In the early 1990s, the collapse of the apartheid regime and the political victory of the liberation movement in South Africa led to the withdrawal of international sanctions against South African capital, which, in turn, took the opportunity to globalise. Mozambique's interaction with the South African economy changed from being predominantly a provider of transport services and migrant labour to becoming a recipient of foreign direct investment (FDI) through the South African financial sector and South Africa became, by far, the dominant trade partner of Mozambique. This change in the form of economic integration within the so-called South African economic space represented a double challenge to emerging Mozambican entrepreneurs. On the one hand, they faced increasing competition from South African goods and services, which were generally cheaper, of better quality, enjoyed a better reputation and were delivered more reliably and with better customer services. On the other hand, there was significant penetration of South African capital, through FDI, in all important spheres of the economy: the minerals and energy complex (starting with the large aluminium plant Mozal and the gas reserves of Pande and Temane), industrial sectors with oligopolistic characteristics in the region and significant economies of scale (sugar, cement, beverages, amongst others), construction, retail trade, tourism and the financial sector. Furthermore, the success of South African FDI in Mozambique encouraged further FDI from other origins, initially associated with the South African financial system, which started to expand quickly in line with a growing perspective of a resource boom in Mozambique associated at first with the scramble for large areas of land and water for further expansion in sugar and biofuel production and, later, with the minerals and energy (coal, natural gas and oil) dynamics. So, FDI became the fundamental shaper of the Mozambican economy, creating the foundations of the extractive economy as a mode of capital accumulation.

In order to transform these threats and challenges into opportunities for aspiring and emerging national capitalist groups, the government launched the second wave of expropriation of the state, thus maximising the attraction of FDI for private gain. The government accelerated the allocation of mineral and energy reserves to large corporations; privatised the management of key infrastructures to make large FDI more attractive and open up the space for more private business opportunities; introduced and maintained fiscal and other subsidies for large corporations in exchange for shares, board seats and provision of services for domestic capitalists; maximised the utilisation of idle public debt; and provided space and potential to promote public–private partnerships and large infrastructure investment for mega-projects[3] as business opportunities for domestic capitalists, thus committing potential future flows of income from natural resources to financing and subsidising current investment expenditure on expansion of business opportunities (Castel-Branco forthcoming; Machel 2011, 2012; Nhachote 2010).

In summary, the aspiring and emerging capitalist classes in Mozambique result from two very different processes of expropriation of the state for private gain. First, it was the highly subsidised, massive transfer of state-owned enterprises and shares to domestic political and economic elites, which mostly created an unproductive class of asset owners with little capital and industrial and managerial experience. The interests of these groups were, then, threatened and challenged by the penetration of FDI in resource-based and oligopolistic sectors, and by expansion of trade liberalisation and trade links with the world, mostly with South Africa. The strategic response of the state to such threats and challenges was to engage in the second, and more complex, wave of expropriation of the state in order to maximise inflows of FDI and the absorption of a share of profits from those inflows by domestic capitalist classes. The resulting economy is, thus, extractive, narrowly based and porous.

Mechanisms and magnitude of economic porosity

The long-standing debate about the appropriation of surplus from mega-projects in Mozambique has intensified as new discoveries of resources are announced and the public becomes more aware of the contradiction between the production of surplus and its social or private appropriation. The government's responses to the growing pressure of public opinion on the need for a renegotiation of the mega-project contracts are contradictory, varying from unconditional support for the social reappropriation of earnings from public resources – as when the Governor of the Bank of Mozambique and the President of the Tax Authority called for renegotiating the contracts of large projects to relieve the pressures on monetary policy and increase public investment in the diversification of the productive basis of the economy (Canal de Moçambique 2011; O País 2011a, 2011b) – to lukewarm support or flat rejection of the idea based on the flawed argument that there is no surplus to be redistributed yet (Guebuza 2012; various interventions by members of the government reported in AIM 2012a, 2012b; LUSA 2012; O País 2012). The preference for social porosity and private appropriation of surplus suggests that the porosity of the economy plays a strategic role in private capital accumulation. This argument is supported by the vast range of information circulated by the Centre for Public Integrity through its database on elites and natural resources (Machel 2011, 2012; Nhachote 2010).

This section aims to achieve two goals. On the one hand, to demonstrate that there is surplus already generated by some of the mega-projects that could benefit a broader social and economic development strategy. On the other hand, to show the mechanisms and magnitude of economic porosity.

Tax incentives and capital gains

To start off the debate, we shall use available data relating only to three large, multinational companies that have already been generating taxable profits for at least four years, namely Mozal (aluminium smelting plant, producing 510 thousand tons of aluminium per year, based in Maputo, which started commercial production in 2000), Sasol (which extracts and transports natural gas from Pande/Temane to be liquefied by a Sasol plant in Seconda, South Africa, and which started commercial extraction in 2004) and Kenmare (heavy mineral sands, ilmenite, rutile and zircon, located in Moma, which started commercial extraction in 2009). These companies benefit from significant fiscal incentives of various sorts (corporate tax incentives, which are as low as equivalent to 1% of their sales, for periods of time that vary in length but are not less than 10 years, negligible surface taxes, allowance for accelerated depreciation, amongst others), as well as from free repatriation of capital. Furthermore, the period that incentives are awarded for can be extended beyond the limits set in the original agreement, at the request of the companies, on the grounds of different factors such as significant fluctuations in exchange rates, international commodity prices and other factors that may affect the rate of recovery of financial costs of investment.

Between 2008 and 2012, these three companies contributed more than 20% of GDP and less than 2% of total tax revenue of the government. Their combined tax contribution (corporate tax, workers' income tax, surface tax [over the land utilised] and royalties) corresponds to 3% of the total value of their sales. Royalties in cash and kind (54% of total tax contribution by the three companies) dominate, followed by workers' income tax (26%), corporate tax (15%) and surface tax (5%) (BdM 1995–2012; GdM 2000–2011). Table 1 shows the relative importance of these different forms of social contribution (taxes of different sorts plus corporate social responsibility contributions) paid by Sasol and Kenmare only, and only for the years 2008 and 2009, as a percentage of the sales of each company.[4] In total, the social contribution of the companies represents 5% of their sales and, in both cases, the contribution from corporate tax (IRPC) is irrelevant (0.3% of Kenmare's sales and 0.003% of Sasol's), as is the case with surface tax (0.1% for Kenmare, whereas Sasol pays nothing). The most relevant contributions are from the workers' income tax (IRPS), 3% of the value of sales for Kenmare, and royalties, 4% of sales value in the case of Sasol, 2.5% of which is paid in kind. Other corporate social responsibility actions contribute 1% of sales.

Table 2 shows the ratio (index of base 100) of total government revenue from corporate tax to total government revenue from workers' income tax, with and without corporate tax incentives for two mega-projects only, Mozal and Sasol.[5] The ratio is smaller when fiscal incentives on corporate tax are in place because there is less corporate tax revenue. If the ratio is less than 100, which holds true for most of the period because of the impact of

Table 1. Relative weight of the different forms of social contribution by Kenmare and Sasol (combined figures for 2008 and 2009) as percentage of the sales of each company.

	Public revenue						
		Direct taxes			Royalties		
	Total (%)	IRPC (%)	IRPS (%)	Surface taxes (%)	Cash (%)	In kind (%)	Corporate social responsibility (%)
Kenmare	5	0.3	3	0.1	1	0	1
Sasol	5	0.003	0.3	0	1.5	2.5	1
Total	5	0.07	1	0.02	1	2	1

Sources: BDO (2011), Boas and Associates (2011), Ernst & Young (2012) and Ossemane (2012).

corporate tax incentives,[6] revenue from workers' income tax exceeds that of corporate tax. From 2010, revenue from IRPC exceeds that of IRPS because of significant improvements in tax administration that reduced illegal tax evasion, leaving intact the idle tax potential created by fiscal incentives for large capital investment projects.[7] As a result of the various tax incentives enjoyed by these three companies, between 2003 and 2011 the state lost potential tax receipts equivalent to US$1.6 billion (at an annual average of US$170 million), half of that amount from Mozal alone (GdM 2000–2011).

Taxation of capital gains associated with transactions of Mozambican natural resource assets, between firms and between these and individuals, is another problem in the dynamics of porosity. In view of the level of disinformation and concealment of information, it is almost impossible to ascertain the totality of such transactions. According to the Minister of Mineral Resources, many Mozambican operators trade their licences and concessions with foreign operators as soon as they receive them (Bias 2010). One deal on mining assets between big multinationals that received most media coverage concerned two coal companies. Riversdale sold 51% of its shares in its coal concession to Rio Tinto for US$4 billion, 4.5 times the company's value on the stock exchange before it obtained the concession. Some former shareholders in Riversdale have become shareholders in Rio Tinto. During the two years in which it kept control of the concession, Riversdale, which closed down after the sale of the shares, made no significant investment. The transaction between Riversdale and Rio Tinto was not taxed because the government had not prepared for this, having no institutions in place to check, monitor and control. After the debate for taxation of capital gains was won, the government started negotiating over Rio Tinto's tax

Table 2. Ratio (index of base 100) of government revenue from corporate tax (IRPC) to government revenue from workers' income tax (IRPS), with and without IRPC incentives for Mozal and Sasol.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
IRPC/IRPS with incentives	88	60	55	50	40	42	53	67	91	96	96	114
IRPC/IRPS without incentives	na	na	na	na	43	107	127	149	173	149	135	128

Source: GdM (2000–2011).

liability as an accomplice in the deal. This would mean, for Rio Tinto, that the total cost of the concession for them would increase by one-third.[8] A rough estimate suggests that by implementing a system of taxing extraordinary capital gains using rates that the government later established, it would have been possible to collect, over the last five years, around US$1.6 billion, three-quarters of this only from the Riversdale–Rio Tinto transaction. In addition to its impact on the treasury, this measure could have had the effect of discouraging speculation in natural resources, whether by multinational companies or by domestic speculators, and could have encouraged productive investment instead.

When the Riversdale case occurred, a public debate exploded about the need to tax extraordinary earnings of capital resulting from these deals between multinationals in the country's productive assets or natural resources. The arguments in favour of taxing capital gains stressed three points: (i) the resources in question are national/public property; (ii) the potential tax revenue is significant in view of the value of the transactions; and (iii) adequate taxation could discourage speculation in national resources and encourage their productive use or conservation. The arguments against taxation, which were instantly rebutted, concentrated on the following: (i) the operations took place in stock exchanges abroad, outside Mozambique's tax jurisdiction (although neither the resources nor the companies were outside that jurisdiction); (ii) there was no adequate legislation to regulate such taxation (though it could have been produced by Mozambique's legislature with the support of international bodies with experience in the matter); and (iii) taxation might discourage transactions between corporations and reduce the inflow of foreign capital (there is no evidence, at international level, of the second effect, and the first would be a positive externality of such taxation, and should be an explicit aim of Mozambique's natural resource policies and strategies).

After two years of hesitation, the government began taxing extraordinary or capital gains. Initially it did it on a case-by-case basis. This was the case, for example, of the tax levied on the sale of 20% of the Italian company ENI's shares in its natural gas concession in Area 4 of Rovuma Basin to the Chinese company CNPC, from which the state collected US$400 million from a sale that brought ENI about US$4.2 billion. Later, the government introduced a fixed rate of 32% on the value of transactions to tax these capital gains, and this will have to be applied to all future transactions – for example, when ENI carries out the planned sale of another 15% of its shares. The tax authority let it be known that it is monitoring, for tax purposes, 15 commercial operations of this type, five of which have already brought the exchequer US$1.5 billion (Catembe.com 2014).

If the losses of potential tax revenue through incentives and from non-taxed speculation in natural resources are totalled, the state could have raised between US$2.4 billion and US$3 billion in additional tax revenue in the nine years under analysis, equivalent to around 13% of total public revenue collected during that period, 7% of total public expenditure and 3% of the average GDP between 2005 and 2013.[9] In other words, the state does not tax these projects because it chooses not to, not because it does not have the technical capabilities to do so, or because there is nothing to tax.

We now turn to question whether investment would have taken place without the tax incentives. Two lines of analysis demonstrate that tax incentives are superfluous for mega-projects. From a theoretical point of view, tax incentives cannot be the decisive factor for projects with the almost invariable characteristics of investment in Mozambique: massive scale, high cost of failure (sunk costs), implemented by multinational firms that dominate regional or world markets, and based on local resources (gas, coal, heavy sands etc.) or other strategic locational advantages, such as the relationship between the location of Mozal and the interest of ESKOM (South African electricity corporation) in controlling the regional energy network, and the presence of a suitable harbour nearby (for imports of raw materials and exports of aluminium). These firms operate with corporate strategies on a grand scale and not on the basis of short-term marginal profits. The strategic interests of multinational corporations are part of the Mozambican state's negotiating power, given that the companies have interests in these locations and are not primarily attracted by tax incentives (Castel-Branco 2010).

From the empirical point of view, Bolnick (2004, 2009a, 2009b) has demonstrated the high degree of redundancy of tax incentives, especially for large-scale projects in Mozambique and southern Africa. In the case of Mozambique, a random survey of 60 companies showed that, as an inducement to investors, 73% of companies do not consider customs incentives to be relevant and 83% consider corporate tax incentives to be of little relevance. As regards their own investment decisions, 78% of firms declared that they were not influenced by corporate tax incentives, while 67% stated that they would have made the investment even without customs exemptions.[10] On Mozal's website, investment incentives come last in the list of important factors affecting investment decisions, after competitive supply of power, efficient harbour, raw materials supply and quality of labour. When talking about investment incentives, Mozal's website emphasises those that have a more significant impact on reducing production costs, namely the costs of power (subsidised by ESKOM), alumina and carbon (BHP, the major shareholder of Mozal, has shares in the companies supplying these raw materials, controls the nearby Matola harbour and benefits from duty-free imports of raw materials), as well as the repayment costs of the investment-related borrowing.[11]

Castro *et al.* (2009) and Kuegler (2009) show that, in a context of double-taxation agreements that give the multinational company a tax credit in its country of origin corresponding to taxes paid in Mozambique, tax incentives are counter-productive from the point of view of the total of incentives the company receives globally. Thus what a firm does not pay in taxes on its earnings in Mozambique it will pay in its country of origin, unless it evades tax by, for example, taking refuge in a tax haven such as Mauritius.[12]

So far, it has been argued that there is significant corporate income to be taxed and fiscal incentives are mostly redundant from the companies' point of view. Thus, there is a case for renegotiation of contracts. The question now is whether the state would lose credibility with foreign investors and the markets by trying to renegotiate the contracts. International experience shows that contracts are renegotiated to correct mistakes and imbalances between the parties, or to adapt them to new circumstances. Renegotiations may be more or less difficult, more or less successful, but the initiative to renegotiate contracts, which has to come from the state, neither detracts from the state's credibility nor causes investor flight. For the investor there are problems greater than renegotiating contracts, such as inadequate infrastructure, a weak industrial and technological network, the lack of skilled workers, the difficulty of finding cheap and good-quality food locally, reliably delivered, and a speculative and expensive financial system. If the terms of the contracts are part of these problems and the renegotiation is part of the solution, companies would rather renegotiate. In Mozambique's present economic, political and social circumstances, the only thing worse than renegotiating contracts is not renegotiating them.

However, is it worthwhile spending the state's political capital on renegotiating contracts when there is the possibility that future gas and coal revenues will be sufficiently large to cover any current and future deficits? IMF projections indicate that tax gains from gas and coal will only start to benefit the economy within 10 years, but in amounts significantly lower than initially predicted because of the high infrastructure costs associated with these industries (Melina and Xiong 2013). Furthermore, the growing levels of current public indebtedness (discussed later) have been guaranteed against projected inflows of income from minerals and energy so that such revenue is already being spent before it is even generated. Moreover, the loss of tax revenue as a result of redundant incentives is being partially compensated for by actions that have decreasing returns and negative impacts on development options, namely an increasing tax burden on the sectors of the economy that pay taxes and the improvement of the tax administration to minimise tax evasion by individuals and small and medium businesses; austerity in public services and social spending, which is reflected in the increasing deterioration in the quality and availability of the state's services to citizens; and public, especially domestic, indebtedness with a direct impact on the capital market and future tax possibilities. Finally, is it socially and politically just for the state to continue subsidising multinationals, especially when these subsidies are mostly redundant as regards attracting investment, have a high cost for the economy and society and are discriminatory because they favour, systematically, a specific group in society, namely big capital, precisely for being big capital?

It is, of course, up to the government to build or join a national and international platform or coalition that supports the renegotiation of contracts, which could involve non-governmental organisations, community or trade union and business organisations, members of the Mozambique parliament and even parliamentarians and social organisations from donor countries and some international financial institutions. It is possible to build pressure for the implementation of the 'good intentions' of the June 2013 G8 summit in the United Kingdom, which stressed the importance of dealing with tax havens and renegotiating multinationals' contracts in underdeveloped economies (Sky News 2013; The Guardian 2013; The Independent 2013). An intelligent and interested government could build such a platform and use it to strengthen its negotiating position.

Licit and illicit capital transfers

Data from the balance of payments (BdM 2003–2011) show that the mega-companies reinvest, on average, between 3% and 5% of their earnings in the Mozambican economy, and that profit repatriation and the cost of investment services bought from large companies are the most important determinants of Mozambique's capital balance deficit. Capital transfers abroad increase in proportion to mega-companies' profits because of the combined effect of the tax incentives, freedom to repatriate profits and the low rate of reinvestment of profits in the economy. This loss of capital, permitted by law, represents 3–4% of annual GDP, depending on the trading conditions faced by the large companies (BdM 1995–2012).

Figure 1 captures the combined effects of the tax incentives, facilities for repatriation and low rates of reinvestment of profits, which hold down the absorption by the national economy of surplus produced in the country by the mega-projects. The data are from Mozal (aluminium) and Sasol (natural gas). The figure shows these companies' trade balance (exports minus imports), their financial transfer abroad (profit repatriation and investment services), their potential for corporate tax revenue if corporate tax incentives had not been in place, as well as their current account (trade balance minus transfers abroad), with and without tax incentives. The large fluctuation in export and import values from 2007, with impact on the other variables, is the result of the aluminium price crisis and the cost inflation associated with oil (transport) price increases.

The current account balance reflects the absorption of the projects' surplus by the national economy. The difference between the trade balance and the current account balance is the

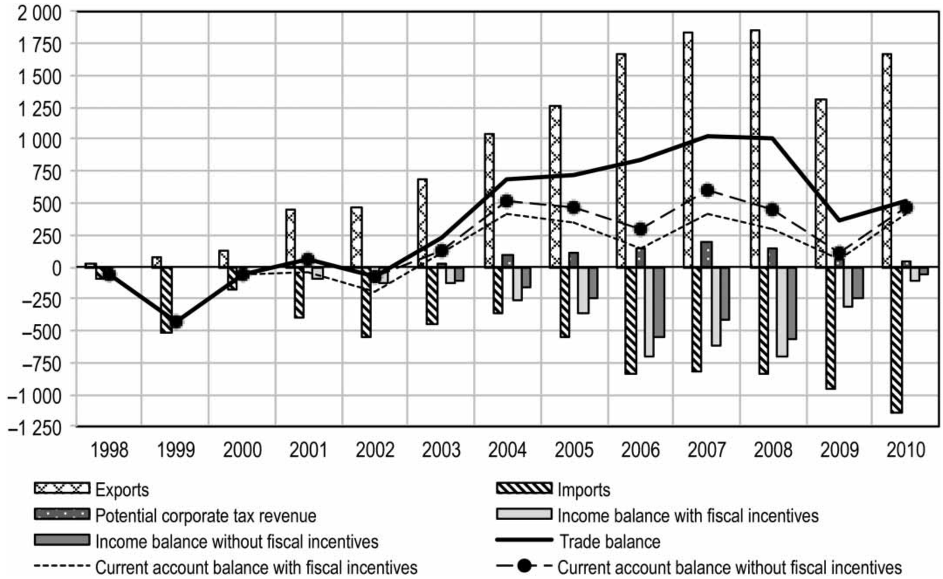

Figure 1. Trade, income and current account balances of Mozal and Sasol, with and without corporate tax incentives (US$ millions).

effect of financial transfers. While the trade balance of these large corporations is extremely positive (at its peak in 2007, exports exceeded imports by around US$1.03 billion), their current account balance is much less impressive (US$414 million, in 2007, absorbed into the economy, mainly as salaries, wages and operating costs of the projects). Total financial transfers, as repatriated profits, services and various remunerations, were around US$616 million. Without corporate tax incentives, which increase the amount of transferable profits, the national economy would have retained an additional US$195 million in 2007 alone, that is, it would have absorbed in that year US$609 million instead of US$414 million, and would have transferred US$421 million instead of US$616 million. Moreover, this additional amount would have been available for use in other economic and social activities, instead of being merely absorbed directly by the projects (in salaries, operating costs and other remunerations, excluding profits) and by their suppliers of goods and services.

The fluctuation in the companies' earnings and tax potential from 2008 illustrates the volatility to which a narrow-based economy is subjected, and points to the need to tax the earnings of capital to mobilise resources that can help to diversify the economy and to create 'shock absorbers' to soften the impacts of the volatility of international markets on financial and fiscal flows, by changing the structure of the economy (Oya 2012).

Illicit capital flight is another dimension of the problem of the decapitalisation of the economy. Using IMF data on the balance of payments to estimate illicit commercial operations involving multinationals, Global Financial Integrity (GFI) has calculated that the Mozambican economy loses 3–5% of GDP per year through illicit capital flight (Fjeldstad and Heggstad 2011; Froberg and Waris 2011; Vestergaard and Hojland 2009).[13] A study carried out by the Institute for Social and Economic Studies (IESE) compares Mozambique's declarations of exports with those of imports in importing countries and, after adjusting for accounting effects (exchange rates, FOB/CIF prices etc.), identified a systematic under valuation of exports by one of the mega-companies from the mineral–energy complex of around 10% a year, which is consistent with GFI analysis (Castel-Branco 2012b).

While it is very difficult to combat illicit capital flight, in which multinationals are specialists, it is possible to minimise this problem by creating the capacity to monitor the relevant information from the projects, improving the central bank's capacity to control commercial and financial transactions, promoting the recruitment and training of domestic suppliers to minimise transfer pricing, and eliminating redundant tax and other incentives. Multinationals have the competences, the financial power and the experience to pursue and achieve their intentions and goals (licit and illicit). It is, therefore, only worthwhile to invite them to explore a country's resources if the state has developed the capacity to manage the resources and the relations with multinationals for the benefit of the economy as a whole. The cost of putting such capacities in place would be more than paid for by the significant reduction in capital flight and other losses.

In short, the total of the legal and authorised transfers and illicit flight of capital would add between 6% and 9% of GDP per year. In other words, Mozambique's economy loses between US$700 million and US$1.2 billion per year, which is the equivalent of the average annual growth rate in GDP, through financial transfers abroad alone, including illicit ones.

Public debt

Public debt is incurred to finance state spending, whether current or capital, or spending associated with public guarantees for private debt. Debt may result from expenditure exceeding available resources or because it is decided that it is advantageous to contract debt to finance a certain type of expenditure. There are strict financial ratios of debt sustainability that are proxies for the capacity to service the debt without the need for rescheduling or risk of insolvency or non-compliance with obligations – in other words, these are ratios that indicate the fiscally sustainable debt space.[14] Within the limits of financial sustainability, the central question is the economic function of the debt and not its size.

According to recent data from the Ministry of Finance (Chang 2014) and the Bank of Mozambique (BdM 1995–2012), total public debt stands at around US$7 billion, of which around US$6 billion are external debt and US$1 billion are internal debt. This level of debt is within the parameters of financial sustainability that, according to the Finance Minister, Manuel Chang, constitute the criterion for contracting debt.[15] Nevertheless, the analysis of the dynamics of public debt reveals a rapid growth in recent years, determined by two important choices made by the state, namely to maintain the tax incentives for big capital and to co-finance the development of big business. These choices force the state into domestic indebtedness, essentially by selling treasury bonds, and to an increasing reliance on foreign commercial loans; this serves to make up for the reduction in flows of foreign aid, mobilise private capital to invest in areas of public interest and take advantage of the modus operandi of emerging economies such as China, Brazil and India, which use debt as an instrument for promoting their industrial strategies and the commercial interests of their multinationals.

Internal debt

Between 2001 and 2013, internal public debt increased 19 times, at an average of 28% a year (three-and-a-half times faster than GDP), going from 1.6 billion meticais (US$54 million) to around 30 billion meticais (US$1 billion). As a percentage of GDP, its stock increased from less than 1% in 1999 to 8% in 2012. The securities component of internal debt (the issue of treasury bonds to residents) represented on average 70% of total internal public debt and was the main determinant of its fast growth. The burden of interest on the internal debt, as a percentage of interest on total public debt, rose from 2% in 1999 to 71% in 2012, although the stock of internal debt was only 14.5% of the stock of total public debt. The reason for this was the high interest rates associated with treasury bonds and the fact that the bulk of external public debt was still at concessionary rates (GdM 1999–2012; 2000–2011; INE 1998–2011; Massarongo and Muianga 2011).

Apart from the rapid rate of growth, driven by the sale of public debt on the domestic capital market and its high cost, there are two other important features of the behaviour of the internal debt that must be borne in mind. The first is the coincidence in timing of rapid growth of internal public debt and the appearance of the first mega-projects. This reflects both the impact of the tax incentives, which left unused new and extensive possibilities for tax-raising, and the state's involvement in the promotion of the extractive system of capital accumulation through investment in infrastructure and specific services and the promotion of the property market. The second was the stimulus given to the rapid growth of public debt in the last five years, coinciding with various other factors: the reduction in foreign aid, the extraordinary increase in the penetration of FDI and the subsequent effort to build infrastructure associated with that.

The size of the internal public debt, the speed at which it is growing, the financial conditions under which debt is acquired and its allocation within the economy have a significant impact on the capital market, affecting the effectiveness and consistency of monetary policy, creating incoherence between monetary and fiscal policies, exacerbating the speculative incentives of the financial system and reducing the availability (while increasing the cost) of domestic capital to finance the economy (Massarongo 2013).

The state could reduce its reliance on the treasury bonds if it mobilised the unused tax potential and used it in the diversification, expansion and articulation of the productive base. This could make it possible to diversify the tax base and exports, carry out import substitution, limit the weight of the state on the small domestic financial market, remove some of the pressure on interest rates and on the availability of capital, reduce risk, reduce the average cost of the debt and change incentives in the financial sector.

External debt

External public debt, standing at around US$6 billion, has increased by 82% in the last seven years, since the last debt rescheduling in 2006, at an average annual rate of 9% – faster than GDP growth. In 2013, the external debt stock had risen to a level similar to that of 1998, when the last negotiations for the last debt rescheduling started. Despite this rapid rise, the level of external debt was more sustainable in 2013 (48% of GDP) than in 1998 (134% of GDP) because in the meantime GDP had increased 2.8 times. The bulk of the debt stock is still made up of loans on concessionary terms (long maturity periods and low interest rates), contracted from multilateral agencies, notably the World Bank, the European Investment Bank, the African Development Bank and the International Agricultural Development Fund (BdM 1995–2012; Chang 2014).

Nevertheless, analysis of the recent dynamics of external debt highlights five particularly relevant aspects. First, since the debt stock grew faster than GDP and government revenue, the burden of debt service on exports doubled and on state revenue it increased by 48%, although it still remains below the sustainability limit. Second, a rapid change is taking place in the composition of the debt, through the rapid growth in commercial debt financed by emerging economies (China, India and Brazil), and also by Japan, Germany, France, Portugal and international commercial financial institutions. Commercial debt, which has been responsible for the rapid growth of the debt stock, is dearer than concessionary debt.

Third, debt is being used to finance large-scale investment in infrastructure directly associated with the extractive core of the economy, in capital-intensive projects linked to the expansion of the property market and the acquisition of shares in large companies. In other words, it is promoting opportunities and profitability for large private business in the context of an extractive, porous economy, which raises questions about the future sustainability of this debt and about the correctness and justification of the austerity being practised in the state's social spending.

Fourth, the current government's appetite for commercial debt is enormous. On the one hand, scope for contracting debt exists, created by foreign aid and two-and-a-half decades of severe austerity associated with successive monetarist programmes of financial stabilisation under the aegis of the IMF. This debt space (the difference between actual debt levels and the limits of debt sustainability) has started to be seen as a 'natural resource' that needs to be mined (in the case of debt space, needs to be filled with debt). In the Finance Minister's speech to parliament in March 2014 (Chang 2014) there was an implicit reference that the government believes that it is inefficient to have such low levels of debt relative to the sustainability ratios, and that this was a wasted resource that should be used. In its appearance before the Assembly of the Republic to justify the contracting of US$850 million worth of debt for the obscure and still unexplained EMATUM project, about which no prior information had been given to parliament, the Bank of Mozambique or the IMF, the government explained that there were advantages in securing a loan at higher interest rates because this made it possible to mobilise more capital than originally planned.[16] In other words, the preference for larger quantities of debt goes to the point at which the government does not much care about its cost. On the other hand, in the short term it is easier politically to contract more debt than to tax the multinationals. Increasing commercial relationships with emerging economies through the contraction of commercial debt significantly reduces the effectiveness of foreign interference or pressure through political conditionality associated with classical, western foreign aid (on liberal democracy, individual human rights, conflicts of interest, transparency, economic liberalisation etc.).

Fifth, the rapid rate of growth in the economy's external indebtedness, even though the debt is still within the sustainability parameters, led Standard & Poor's Rating Service to reduce the Mozambique economy's long-term sovereign credit rating from B+ to B in February 2014. The justification for this decision is the expectation that the growth rate of public indebtedness in 2014–2017 will be double that of 2010–2013. The reduction in confidence in Mozambique's macroeconomic stability may contribute to increasing the cost of capital. In other words, through its impact on the financial markets, public debt, internal and external, is contributing to crowding out other development options.

The government believes that future tax receipts from the extractive core of the economy will make it possible to finance the service of the debt incurred in the present (Chang 2014; GdM 2011, 2013; Guebuza 2012). Nonetheless, the current dynamics of indebtedness for massive investment in large capital projects may create a debt crisis at the same time as, in the short and medium term, it increases the rate of economic growth but narrows growth options particularly because of the impact of debt on domestic capital markets (discussed later). The likely scenario depends on the behaviour of future revenues (particularly from gas, oil and coal), on the cost of the investment that the economy's extractive system will absorb, on the modalities and costs of the debt financing (Melina and Xiong 2013) and on the social, economic and financial impacts of the investment that in the meantime will take place. The levels of porosity, the direction and the high capital costs of the current development strategy, the volatility of commodity markets and the role of the debt in restricting development options through its impact on the capital market may all pose challenges to Mozambique's future macroeconomic stability as great as or greater than those of the second decade after independence, which resulted in two decades of IMF-driven stabilisation programmes. The present strategy may be contributing to limiting the options of future generations, since future resource inflows are already earmarked for financing the ups and downs of indebtedness in the present.

Capital accumulation, financialisation and the financial system

This section discusses the interaction between the financial system and the rest of the economy as it develops in an extractive and porous context. Its focus is a paradoxical point, the rigidity of the commercial banking sector's response to the central bank's attempts to promote a more expansionist monetary policy. This topic captures three dimensions of the problems of financial development in Mozambique, namely how this development is affected by the dynamics of capital accumulation, how it helps to structure these dynamics and how it operates faced with the inconsistency of the different phases of monetary policy and between monetary and fiscal policy.

The strategy to deliberately expand banking services, including the expansion of territorial bank coverage in the country and the increase in relevance of the banking system in financial and commercial transactions, is a recent emphasis in Mozambique's monetary policy. Associated with the banks' interest in expanding business opportunities, the strategy of expanding banking services has contributed to the growth of the banking system at an average annual rate of 10%, just over two percentage points above the average annual growth in GDP, over the last eight years. Despite this expansion, 47% of bank counters are situated in the city and province of Maputo, which constitutes less than 5% of the national territory and contains around 15% of the population; and 40% of districts still have no form of banking presence (Amarcy and Massingue 2011; BdM 1995–2012; Massarongo 2013).

The expansion of the banking system also seeks to increase the relevance of the financial system to the expansion of the production base, through the provision of capital at low cost to finance economic operations. To achieve this objective, the Bank of Mozambique started to reduce its base rates from 2011 in order to encourage and facilitate a reduction of lending interest rates by the commercial banks. Nevertheless, the commercial banks' response to the reduction of the reference rates was significantly slower than expected by the monetary authorities. The reduction in reference rates was eight times faster than that of commercial interest rates (which, in real terms, remained at around 14%), with time lag between the movement of the two rates of over a year (Massarongo 2013). In other words, the improvement in territorial coverage by the banking system is not being accompanied by an improvement in the conditions for access to finance available to firms dependent on obtaining credit locally. Why? Amarcy and Massingue (2011), Castel-Branco (2012a, forthcoming), Massarongo (2013) and Massarongo and Muianga (2011) explore three possible explanations.

First, inconsistency in monetary policy and between monetary and fiscal policy. To counter the impact of imported inflation, especially in foodstuffs, resulting from the combination of an increased dependence on imports and the international food crisis, the central bank adopted restrictive monetary policy measures in 2010 and 2011. It injected foreign currency into the economy to a total of around US$1.4 billion over the two years, limited the growth of money supply to its lowest rate in four years and increased the level of compulsory reserves and the reference rates, leading to overvaluation of the exchange rate, a reduction of the price, in local currency, of imported goods and, as a result, a reduction in imported inflation. In a sense, it adopted an 'anti-riot exchange rate policy'.[17] Real commercial interest rates increased in line with the increase in reference rates and the reduction in money supply. Against this background, the introduction of expansionary monetary policy measures in 2011, namely the reduction in base rates, had no credibility with the commercial banks, which chose to take a cautious approach since the structural conditions that had led the central bank to adopt restrictive monetary measures had not changed. Furthermore, there were expectations of a significant increase in FDI and the potential for inflation, volatility and disturbances in domestic capital markets that are associated with large inflows of capital. In other words, the structural conditions of the economy conspired with risk, expectations and habit against the effectiveness of expansionary monetary measures.

This period was also characterised by the rapid increase in public indebtedness, which was financed by the largest issue to date of government securities. The stock of treasury bonds and other government securities increased by 48% and 36% respectively, between 2010 and 2012. The sale of government securities, promoted with attractive rates of return and reduced risk, contracted the amount of money available for productive investment by the private sector. Thus the incoherence between fiscal and monetary policy deprived monetary policy of its effectiveness in pursuing expansionary objectives. In conclusion, the expansionary monetary measures were introduced in a context of significant reduction of available liquidity, which must have contributed to depriving these measures of effectiveness and increasing their cost.

Second, the under developed and non-competitive structure of the financial system and the impact of financialisation. The commercial banks are responsible for 90% of the lending and the deposits in the formal financial system. The stock exchange accounts for only 6% of the assets traded in the financial system, and 80% of these are government securities. Apart from the banks, only two companies, Mozambique Beers and the National Hydrocarbons Company, were quoted on the stock market by 2013. Thus, the dynamics of the commercial banking sector determine the behaviour of the financial sector.

The banking sector, for its part, is not competitive: 17% of the banks hold 80% of the outlets and are responsible for 77% of lending and 79% of deposits. The two biggest banks, through which the state carries out its financial operations, control 62% of deposits, 72% of credit operations and 53% of outlets. These banks' power over the market enables them to maintain a price structure that is socially inefficient, while the concentration of the banking system creates an almost inelastic demand for credit for each bank, reducing the incentive to lower interest rates.

The banks are controlled by shareholders who are foreign banks, predominantly Portuguese or South African, which hold over 70% of the shares in the four largest banks. These shareholders are more directly exposed to the effects of the international crisis and the dynamics of financialisation, which probably makes them more interested in responding to their global profitability and adjustment strategies than to the reference rates of the central bank in Mozambique.

Moreover, 40% of the demand deposits and 20% of the fixed-term deposits are in foreign currency. Legislation limits lending in foreign currency, which means that the banks maintain inactive savings from which they cannot make profits but which incur costs. The banks may therefore be making up for their loss of earnings from the foreign currency accounts by keeping the interest rates on active operations high. Figures from the last five years show that the proportion of demand deposits in foreign currency has remained stable, while that of fixed-term deposits has fallen by half. The banks must therefore be carrying out offshore operations in foreign currency to capitalise on the foreign currency deposits.

Finally, the largest banks are increasingly specialising in lending to other banks and trading on debt bonds, public and private, which are guaranteed by the government and yield higher returns. Thus, the 2011 accounts for the four main banks show high and rising profit margins, which makes the banks the most profitable businesses in the country's economy. Between 2004 and 2011, the profit margin of these four banks rose at an annual average of 57%.

Third, the extractive structure of the economy. The economy's extractive system limits business opportunities to a narrow range of activities, sectors, goals and capabilities in the extractive core and the service and infrastructure network that surrounds it. This system creates specific obstacles to the formation of linkages, which means that the growth opportunities in the banking market are limited to the extractive system, property speculation, consumer durables and public debt bonds: the first and fourth are large and dynamic, but the second and third are dynamic but small, as a result of the limited size of the economy and its purchasing power.

The porosity associated with the extractive system creates opportunities for financial speculation as a result of the increasing use of debt bonds as a means of financing the state. In other words, on the one hand public debt creates private business opportunities and profits subsidised by the state in the economy's extractive system and, on the other, the debt itself provides business for finance capital through the returns, stability and security of debt bonds. It is thus not surprising that the structure of bank assets is changing, as the proportion of lending in the economy (about half the assets) has been falling slightly (by 2%) in the last three years, while the proportion of financial assets (investment in financial bonds and other lending institutions) has almost doubled. This tendency reflects the banks' preference for debt bonds, because of their attractive rates and low risk, as a result of the inconsistencies of monetary policy, and between monetary and fiscal policy, which favour financial speculation instead of real investment.

The structure of credit is also changing, as the proportion going to trade, industry and agriculture has fallen significantly over the last 12 years, while that for construction, transport and communications, and other sectors (which include mineral and energy resources, forestry, electricity and others) has risen. This change in the structure of credit is consistent with the pattern of growth and investment focused on the extractive system of accumulation.

The economy's dependence on external capital flows (foreign aid, FDI and debt), combined with the emphasis of monetary policy on inflation targets, results in restrictive monetary measures which have an impact on the quantity of money in circulation and, in a way, 'sterilises' the central bank's timid attempts at promoting expansionary monetary policies.

We see, then, that the ineffectiveness of monetary policy in increasing the availability of capital for productive investment and in reducing its cost is the result of a combination of factors: inconsistencies in the aims and sequencing of monetary policy and between monetary and fiscal policy; the structure of the financial system; more general processes of accumulation and growth in the economy; and the international dynamics of financialisation. The banks are structuring the real economy in accordance with their interests and the real economy in general, and economic policies, in particular, are conditioning the banks' options for defining and pursuing these interests.

Conclusions

As a whole, the Mozambican economy has expanded significantly. Notably, GDP, investment, trade and the financial system have grown, as has the purchasing power of specific strata of the middle class, consisting of skilled workers associated with the core and periphery of the extractive economy, managers and owners of capital, as well as local elites. In contrast, the structural vulnerabilities of the economy have appeared more clearly: its ineffectiveness in reducing poverty, its porosity and its more general macroeconomic vulnerability.

Economic growth – rapid and based on an extractive and extensive model – is fundamentally a by-product of investment rather than an end in itself. Investment is the form of penetration of much-needed capital for the formation of Mozambique's national capitalist groups. Thus, the voracious appetite for more capital, FDI or commercial loans/debt at any cost is, to some extent, logical from the point of view of private capital accumulation, no matter what the long-term consequences are for the economy as a whole. The pattern and structures of economic growth are the result of a model that relies on multinational, financial capital that, with respect to Mozambique, is focused on resources – land, water, minerals and energy – real estate and durable and luxury consumer goods. These patterns and structures of growth create more opportunities for accumulation and investment of the same type, helping to attract more of the same type of capital. The extensive use of natural resources and the porosity of the economy are only historically specific factors in the process of accumulation, that is, they depend on the historical conditions in which Mozambican national capitalism has developed.

The image of a Mozambique 'rich' in natural resources is derived from the fact that privileged access to these resources and the opportunity to privatise them and renegotiate with multinational capital have become the specific mode of accumulation of domestic and international capital. Porosity is the general economic mechanism by which the appropriation of the resources and surplus is generated, and the negotiation with multinationals takes place. Porosity yields high social costs, but functions with relative efficiency and effectiveness as a channel of communication between domestic and international capital, giving domestic capital access to resources and surpluses for accumulation at low cost, through the expropriation of the state.

The combination of the porous and extractive patterns of growth with a monopolistic financial system and the international processes of financialisation produces a financial sector focused on three dimensions of the economy, namely the extractive core and its adjacent infrastructure and services; consumption of consumer durables and luxury goods and property speculation; and acquisition of and dealing in the public debt (or speculation in financial assets). Fiscal porosity and the focus of public and private investment on large, resource-based projects lead to the crowding-out of small and medium firms in the domestic financial market. Monetary policy has become inconsistent with fiscal policy, and monetary policy alone has become ineffective in making up for the effects of fiscal porosity and accelerated public indebtedness. Hence, the banks are structuring the real economy in accordance with their interests, and the real economy in general, and economic policies in particular, are conditioning the banks' options for defining and pursuing these interests.

In order to bring about a substantial improvement in quality of life for the poorest social groups, the model of economic growth must combine two basic conditions. First, the social costs of subsistence and reproduction of the labour force have to fall. Second, workers' wages and other forms of labour income must exceed the social cost of subsistence and reproduction of the labour force. These two conditions have to be replicated throughout the economy, and not just in a dominant, narrow core. But this is incompatible with an economy dominated by an extractive core and requires a process of accumulation based on broad, diversified and connected dynamics of industrialisation, and these must also aim to satisfy needs of consumption that match the rhythms, phases and patterns of accumulation.

The transformation of the pattern of accumulation requires mobility of resources. The extractive economy and its porosity concentrate resources, especially financial resources, capabilities and infrastructures, on the extractive system, which means that they are not available for the development of the wider base of the economy. The remuneration of labour at below its social costs of subsistence is a block on labour mobility, job creation and an increase in productivity. In other words, for the economy to be able to produce prosperity for all, we have to solve the problem of porosity and the cost of workers' subsistence. It is just possible that the solution to both problems is identical, or has the same starting point.

The starting point for these actions may be linked to the promotion of society's expectations of the current models of development. What is emphasised in public debate is the need to manage expectations about the extractive system, in other words, that communities' and citizens' expectations must be reduced, postponed or abandoned, to allow the expectations of capital to be realised in the short term. Increasing the rate of financial return for the shareholders of the extractive system and accelerating indebtedness guaranteed by future income not yet generated have become, in public policy and discourse, much more relevant than the creation of decent jobs, the production of cheap food, a coherent diversification of the production base, effective import substitution, local industrialisation, environmental protection and the development of new livelihoods for those who have been expropriated. However, the energy for change cannot come from a blocking of expectations. On the contrary, it will have to come from a political shaping of these expectations into an agenda for social struggle.

Naturally, these struggles, debates and questions are social and political and not just financial or economic, because development choices and definitions of priorities, success criteria and short- and long-term perspectives have a social and political character. They emerge from political and social processes, because they affect the production, appropriation, control and use of the surplus and, in the end, social and power relations. Accordingly, the first question which occurs in a discussion of change and transformation, and coherence between the short term and the long term, is the following: from what social base and in which historical conditions do interests in favour of change emerge and become influential or even dominant, and how do they combine and define priorities, articulate demands and programmes, and organise and mobilise around a different vision of development and growth?

Note on contributor

Carlos Nuno Castel-Branco holds a doctorate in economics from the School of Oriental and African Studies (SOAS) of the University of London. He is coordinator of the Research Group on Economics and Development of the Institute of Social and Economic Sciences in Maputo (www.iese.ac.mz), Associate Professor of Industrialisation and Economic Development in the Faculty of Economics of Eduardo Mondlane University, Maputo and Associate Researcher in the Department of Development Studies at SOAS, University of London.

Notes

1. This article was translated for ROAPE from the original Portuguese by Francis McDonagh. Email: fmcdinho@gmail.com
2. PRE, an economic rehabilitation programme, was a classical stabilisation and adjustment process led by the International Monetary Fund (IMF) and the World Bank aiming at stopping

economic decline, reducing inflation and promoting market liberalisation and privatisation of state-owned assets.

3. According to Mozambican investment law, a private investment project is classified as 'mega' when it requires an initial investment cost of US$500 million or more.
4. These are officially confirmed and published figures from the 2011 and 2012 EITI reports on Mozambique (BDO 2011; Boas and Associates 2011; Ernst & Young 2012). EITI stands for Extractive Industries Transparency Initiative. Countries that wish to qualify as being in compliance with EITI rules and standards need to be submitted to an annual auditing carried out by independent consultants. Most of the disaggregated data on tax payments by extractive industry firms come from these reports. As they focus on traditional extractive sectors, Mozal is not included in Table 1.
5. Obviously, the 'without corporate tax incentives' scenario is a simulation based on disaggregated tax and fiscal incentive figures from the approved public general accounts.
6. Despite official socio-economic figures showing that 54% of the population live below the poverty line and less than 10% of the active labour force have formal jobs from which taxes can be collected, GDP growth rates have averaged more than 7% for two decades and the Mozambican economy has become the third in sub-Saharan Africa in terms of destination of FDI.
7. In the meantime, the government is negotiating with two gas and oil multinationals, Anadarko and ENI, the provision of a special tax regime with significantly increased incentives for the establishment of gas liquefaction plants in Cabo Delgado. In order to accelerate the negotiations, the government applied for permission from parliament to legislate via decree without the need to go back to parliament (CIP 2014).
8. In late July, after two years in Mozambique, it was announced that Rio Tinto had sold its coal concession to an Indian company for US$50 million, about 80 times cheaper than the price it had paid for it to Riversdale. The sale happened before any taxes on the transaction with Riversdale were paid to the state. Vale Moçambique, the largest coal company, which had acquired management rights for the railway infrastructure to the northern ports, has also announced that it wishes to sell shares in its concession (Savana 2014, 4–5).
9. The analysis of the losses of public income could be extended to include the taxes on land for large commercial projects of around US$0.40 per hectare, which, despite being so low, are not collected (Castel-Branco and Mandlate 2012), but these data are too inconsistent, with large gaps and concealment of data, to be included in the calculation.
10. This study showed that customs exemptions, though largely redundant, are more important than corporate tax exemptions because of the Mozambican economy's dependence on imports of capital and other production-related goods and services.
11. Mozal's website, accessed on August 8, 2014, states that the London Metal Exchange (LME) price to break even on a cash plus debt repayment basis is less than half of the lowest price at which aluminium has been traded in the LME in 2014, showing that Mozal's cost of production is highly competitive.
12. Not surprisingly, several mining, gas and oil companies are now registered in Mauritius and that tiny island has become one of the leading 'sources' of FDI to Mozambique (CPI n.d.).
13. This estimate excludes all the other potential forms of illicit capital flight that cannot be captured by an analysis of balance of payments data.
14. For countries with medium Country Policy and Institutional Assessment (CPIA) scores, like Mozambique, the sustainability ratios are the following: net present value of the debt as a percentage of exports (limit 150%) or of GDP (limit 40%) or government revenue (limit 250%), debt service as percentage of exports (limit 20%) and of government revenue (30%). See Ossemane (2010) for a more detailed discussion of indicators of debt sustainability, their validity and applicability to Mozambique with its extractive and porous economy. Ossemane questions the appropriateness of these ratios to Mozambique's economy. Assuming that the aim of the ratios is to indicate the capacity of the economy to create and mobilise resources of its own to service the debt and development, he draws attention to two issues: (i) the need to exclude foreign aid from the analysis of debt sustainability in relation to government revenues, and (ii) the need to relate debt to the current account balance, not the trade balance, to take into account the economy's porosity and absorption capacity (see Figure 1).
15. It is interesting that the Minister of Finance mentioned the limits of sustainability as the only concrete criterion for contracting debt. One would think that the main criterion would be the

economic function of debt within a specific set of economic and financial conditions and strategies. The fact that the only criterion mentioned is the limit of sustainability suggests that the government is more concerned with the amount of debt it can mobilise and utilise than with its socio-economic functions.

16. Because of not meeting the key 'good governance' criterion related to its application for a commercial loan for the EMATUM project (as mentioned, the government failed to inform the central bank, the parliament and the IMF before going to the commercial capital markets), the government could only mobilise funds at a higher premium (interest rates of 8.5% per year, instead of 7%). Afterwards, the government argued in parliament that this higher premium encouraged more lending by commercial financial institutions, raising the amount of debt thus mobilised from US$550 million to US$850 million.
17. In 2008 and 2010 there were widespread street protests, with some violence, against the rise in prices of basic consumer goods, especially food, and domestic fuel and public transport. The political and social impact of these protests, which momentarily shook the country's political establishment, was amplified because they occurred at the same time as the 'Arab Spring' and dozens of other waves of protest around the world against the food and energy crisis and against the austerity associated with the financial crisis. Soon after the 2010 riots, published official statistics were showing that despite robust and accelerated economic growth, poverty levels had not fallen for six years.

References

Articles, books and reports

Amarcy, S., and N. Massingue. 2011. "Desafios da Expansão de Serviços Financeiros em Moçambique." In L. Brito, C. N. Castel-Branco, S. Chichava, and A. Francisco, (org.), Desafios Para Moçambique 2011, 185–205. Maputo: IESE.

BdM (Banco de Moçambique). 1995–2012. *Relatório Anual*. Maputo: Banco de Moçambique.

BdM. 2003–2010. *Balança de Pagamentos*. Maputo: Banco de Moçambique.

Bias, E. 2010. *Indústria Extractiva em Moçambique*. Accessed November 1, 2011. http://www.mirem.gov.mz/itie/IndustriaExtractivaMoc.pdf

BDO. 2011. *Relatório de Revisão Limitada as Demonstrações das Discrepâncias do 1° Relatório da ITIE*. Maputo: ITIEM.

Boas and Associates. 2011. *ITIE Moçambique: Primeiro Relatório de Reconciliação – Ano de 2008*. Maputo: ITIEM.

Bolnick, B. 2004. *The Effectiveness and Economic Impact of Tax Incentives in the SADC Region*. Prepared by Nathan Associates under the USAID Projecto SADC-TIFI.

Bolnick, B. 2009a. *Investing in Mozambique: the Role of Fiscal Incentives*. Maputo: USAID.

Bolnick, B. 2009b. *The Motivation for Investments in Mozambique: The Role of Fiscal Incentives*. Prepared by Nathan Associates, Inc. for the Projecto de Comércio e Investimento da USAID/Moçambique.

Castel-Branco, C. 2010. "Economia Extractiva e Desafios de Industrialização em Moçambique." In L. Brito, C. Castel-Branco, S. Chichava, & A. Francisco (org). Economia Extractiva e Desafios de Industrialização em Moçambique. Maputo: IESE.

Castel-Branco, C. 2012a. 'Paradoxos' da Economia de Moçambique – Modo de Acumulação Extractivo como Método de Explicação." Presentation at the Sciences Academy of Moçambique. July, Maputo.

Castel-Branco, C. 2012b. "Fluxos Financeiros Ilícitos em África – Recursos Escondidos para o Desenvolvimento: Reflexões sobre Moçambique." Seminar organised by A Politécnica University and the Embassy of Denmark, May, Maputo.

Castel-Branco, C. forthcoming. *Acumulação, Economia Extractiva e Financeirização: Crítica da Economia Política do Desenvolvimento em Moçambique*. Maputo: IESE.

Castel-Branco, C., and C. Cramer. 2003. "Privatization and Economic Strategy in Mozambique." In *From Conflict to Recovery in Africa*, edited by T. Addison, 151–170. Oxford: Oxford University Press.

Castel-Branco, C., and O. Mandlate. 2012. "Da Economia Extractiva à Diversificação da Base Produtiva: O Que Pode o PARP Utilizar da Análise do Modo de Acumulação em Moçambique?" In *Desafios para Moçambique*, edited by L. Brito, C. Castel-Branco, S. Chichava, and A. Francisco (orgs.). Maputo: IESE.

Castro, P. *et al.* 2009. *Evaluation of Reforms in Tax Policy and Administration in Mozambique and Related TA – 1994–2007*. IMF/IFAD. September.

CEA (Centro de Estudos Africanos). 1979. *O Desemprego e a sua Ligação com o Campo*. Maputo: UEM.
Chang, M. 2014. Respostas do Ministro das Finanças da República de Moçambique, Manuel Chang, às perguntas dos deputados da Assembleia da República. March 6. Maputo.
CIP (Centro de Integridade Pública). 2014. Concessões no âmbito do LNG: Governo insiste em legislar sem consulta pública e sem transparência. Serviço de Partilha de Informação, n° 06/2014, Agosto.
CPI (Centro de Promoção de Investimento). n.d. *Base de Dados do Investimento Privado Aprovado, 1990–2012*. Maputo: CPI.
Cramer, C. 2001. "Privatisation and Adjustment in Mozambique: A ''Hospital Pass'?" *Journal of Southern African Studies* 27 (1): 79–103. (March).
Ernst & Young. 2012. *ITIE Moçambique: Segundo Relatório de Reconciliação – Ano de 2009*. Maputo: ITIEM.
Fine, B. 2009. Financialisation and Social Policy. Presentation at the conference "Social and Political Dimensions of the Global Crisis: Implications for Developing Countries", November 12–13. Geneva: UNRISD. https://eprints.soas.ac.uk/7984
Fine, B. 2012. "Neoliberalism in Retrospect? It's Financialization, Stupid." In *Developmental Politics in Transition: The Neoliberal Era and Beyond*, edited by C. Kyung-Sup, B. Fine and L. Weiss, 51–69. London: Palgrave MacMillan.
Fjeldstad, O-H., and K. Heggstad. 2011. *The Tax Systems in Mozambique, Tanzania and Zambia: Capacity and Constraints*. CMI Report 2011:3.
Froberg, K., and A. Waris. 2011. *Bringing the Billions Back*. Stockholm: Forum Syd förlag.
GdM (Governo de Moçambique). 2000–2011. *Conta Geral do Estado*. Maputo: Government of Mozambique.
GdM. 1999–2012. *Relatórios de Dívida*. Maputo: Government of Mozambique.
GdM. 2011. *Plano de Acção para Redução da Pobreza (PARP) 2011–2014. Aprovado na 15a Sessão Ordinária do Conselho de Ministros*. Maputo: Government of Mozambique.
GdM. 2013. *Republic of Mozambique: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding*. Maputo: Government of Mozambique.
Guebuza, A. 2012. *Informação Anual do Chefe de Estado à Assembleia da República sobre a Situação Geral da Nação* (December 21).
INE (Instituto Nacional de Estatística). 1995–2011. *Anuário Estatístico*. Maputo: INE.
Kuegler, A. 2009. "Fiscal Treatment of Megaprojects." In *Taxation in a Low-income Economy: The Case of Mozambique*, edited by C. Arndt, F. Tarp, and S. Jones. New York: Routledge.
Lenin, V. I. 2010 [1917]. *Imperialism: The Highest Stage of Capitalism*. London: Penguin Classics.
Luxemburg, R. 2003 [1913]. *The Accumulation of Capital*. New York: Routledge.
Machel, M. 2011. "O duplo papel do governo na migração da radiodifusão do analógico para o digital: um negócio da China para a família Guebuza." CIP Newsletter (11), 1–5.
Machel, M. 2012. "Alianças com selo de tráfico de influências e conflitos de interesses." CIP Newsletter, (13), 10–16.
Mackintosh, M. 1987. "Agricultural Marketing and Socialist Accumulation: A Case Study of Maize Marketing in Mozambique." *Journal of Peasant Studies* 14 (2): 243–67.
Marx, K. 1976 [1867]. *Capital: a Critique of Political Economy*. Vol. 1. London: Penguin Classics.
Massarongo, F. 2013. "Porque é que os bancos privados não respondem à Redução das Taxas de Referência do Banco de Moçambique? Reflexões." In *Desafios para Moçambique 2013*, edited by L. de Brito *et al.* Maputo: IESE.
Massarongo, F., and C. Muianga. 2011. "Financiamento do Estado com Recurso à Dívida – Problemas e Desafios." In *Desafios para Moçambique 2011*, edited by L. de Brito *et al.*, 161–184. Maputo: IESE.
Melina, G., and Y. Xiong. 2013. "Natural Gas, Public Investment and Debt Sustainability in Mozambique." IMF Working Paper 13/261 (November).
Nhachote, L. 2010. *Indústria de Mineração atrai Várias Figuras da Nomenclatura Dominante*. CIP Newsletter n° 6, Junho 6–7. Maputo: Centro de Integridade Pública (CIP).
O'Laughlin, B. 1981. "A Questão Agrária em Moçambique." *Estudos Moçambicanos* 3: 9–32. Maputo: CEA/UEM.
O'Laughlin, B. 1996. "Through a Divided Glass: Dualism, Class and the Agrarian Question in Mozambique." *Journal of Peasant Studies* 23 (4): 1–39.

Ossemane, R. 2010. "Quadro de Análise da Sustentabilidade da Dívida nos Países de Baixo Rendimento: o Caso de Moçambique." In *Economia Extractiva e Desafios de Industrialização em Moçambique*, edited by L. de Brito *et al.*, 111–128. Maputo: IESE.
Ossemane, R. 2012. "Será a ITIEM relevante para Melhorar a Gestão dos Recursos Minerais? Uma Análise Crítica da Experiência." In *Desafios para Moçambique 2012*, edited by L. de Brito *et al.*, 145–164. Maputo: IESE.
Oya, C. 2012. "Crise Global, Crescimento e Desafios para Moçambique e sua Estratégia de Desenvolvimento." In *Desafios para Moçambique 2012*, edited by L. de Brito *et al.*, 387–410. Maputo: IESE.
UTRE (Unidade Técnica de Restruturação Empresarial). 1996. "Mozambique: Evaluating the Impact and Effectiveness of the Enterprise Restructuring Program." Maputo: Technical Unit for Enterprise Restructuring, Ministry of Planning and Finance, Republic of Mozambique.
UTRE. 1999. *Privatisation in Mozambique*. Maputo: Technical Unit for Enterprise Restructuring. Ministry of Planning and Finance, Republic of Mozambique.
Vestergaard, J., and M. Hojland. 2009. *Combating Illicit Financial Flows from Poor Countries. Estimating Possible Gains*. DIIS Policy Brief. Copenhagen: Danish Institute for International Studies.
World Bank. 1996. *Moçambique: Avaliação do Impacto e Eficiência do Programa de Reestruturação de Empresas*. Washington, DC: World Bank.
Wuyts, M. 1981. Camponeses e Economia Rural em Moçambique. *Relatório 81/8*. Maputo: Centro de Estudos Africanos (CEA).
Wuyts, M. 1989. *Money and Planning for Socialist Transition: The Mozambican Experience*. Aldershot, UK: Gower.

Press articles and blogs

AIM (Agência de Informação de Moçambique). 2012a. *Governo admite renegociar mega projectos – admite Primeiro Ministro Aires Ali*. 11 de Maio.
AIM. 2012b. *Mega projectos: governo confirma renegociação pontual – afirma Ministro das Finanças* Manuel Chang. 27 de Dezembro.
Canal de Moçambique. 2011. *Mega-projectos criam contradição entre governador do Banco Central e membros do Governo*. 2 de Fevereiro.
Catembe.com. 2014. Fazenda pública encaixa mais de USD1,3 mil milhões. Edição n° 7, 5, 2 de Abril.
Hanlon, J. 2001. "Mozambique's Banking Crisis: Killing the Goose that laid the Golden Eggs." Series of 12 parts published in the fax newspaper *Metical*, between 17-09-2001 and 03-10-2001.
LUSA (Agência Portuguesa de Notícias). 2012. *Governo vai renegociar benefícios fiscais das multinacionais* – Ministro das Finanças Manuel Chang. 27 de Dezembro.
O País. 2011a. *Gove diz que há condições para negociar com os mega-projectos*. 31 de Janeiro.
O País. 2011b. "O que mantém os mega-projectos não é a isenção fiscal." 14 de Janeiro. Suplemento *«O País Económico»*.
O País. 2012. *Governo vai renegociar contratos com megaprojectos* – Ministro das Finanças Manuel Chang (Dezembro, 14).
Savana. 2014. *Caos no Carvão.* 8 de Agosto, 4–5.
Sky News. 2013. "Tax Evasion: G8 Leaders Vow Tougher Stance." June 18.
The Guardian. 2013. "G8: Cameron and Osborne to make final push for Tax Evasion Crackdown." June 17.
The Independent. 2013. "G8 Leaders must do more than Talk a Tough Game on Multinational Tax Avoidance." June 19.