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*Conversation With  
The Minister of Finance and Planning of the Republic of  
Mozambique*

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Luisa Diogo



# Mozambique at a Glance

## History

**T**he drive for Mozambican independence developed and in 1962 several anti-Portuguese political groups formed the Front for the Liberation of Mozambique (FRELIMO), which initiated an armed campaign against Portuguese colonial rule in September 1964. After 10 years of sporadic warfare and major political changes in Portugal, Mozambique became independent on June 25, 1975. FRELIMO quickly established a one-party Marxist state and outlawed rival political activity. A civil war between the FRELIMO government and the Mozambican National Resistance (RENAMO) began in 1976. RENAMO originally emerged as a creation of the Ian Smith regime in Southern Rhodesia to destabilize the Mozambican government which supported Zimbabwean and South African liberation movements. After Southern Rhodesia became Zimbabwe in 1980, the South African government took over the external sponsorship of RENAMO and began providing the insurgents with logistical support and training. Despite its brutal methods and documented human rights abuses, RENAMO was also able to draw upon strong internal dissatisfaction with FRELIMO to garner some support among local populations. On March 5, 1984, the Government's of Mozambique and South Africa signed the Nkomati accords, which committed both countries to cease hostilities against the other and to search for ways to increase economic cooperation. A General Peace Accord was signed in October 1992 and a UN Peacekeeping Force (ONUMOZ) successfully oversaw the ceasefire and the two-year transition to multiparty elections. The last ONUMOZ contingents departed Mozambique in early 1995. Mozambique's first president, Samora Machel, died when his aircraft crashed near Mbunzi on South Africa's border with Mozambique in October 1986. Machel was succeeded by Joaquim Alberto Chissano, who had served as Foreign Minister from 1975.

In November 2000, Mozambique suffered its worst political violence since independence. Widespread civil disobedience led by RENAMO, protesting the 1999 election results, resulted in over 40 deaths and 80 RENAMO demonstrators subsequently suffocated in a prison cell in Montepuez. Municipal elections are scheduled for late 2003, and presidential and National Assembly elections for 2004. President Chissano recently announced that he will not seek a third term. In early 2000, the country suffered from devastating rains and floods, which further compounded the daunting economic challenges that it faces. About 700 people died and 491,000 were displaced.

### Mozambique at a Glance-2000

**Population:** 17.6 million  
**Surface area (1997):** 801.6 thousand sq. km  
**Population per sq. km (1997):** 2  
**Population growth:** 2 %  
**GNI per capita:** 210 US\$  
**GDP:** 3.8 billion US\$  
 Source: *World Development Indicators Database*

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## Conversation With The Minister of Finance and Planning of the Republic of Mozambique

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Luisa Diogo

### “ Talking Figures ”

**M**inister Luisa Diogo of Mozambique has served as the Minister of Finance and Planning since 2000. She is the only female Minister of Finance in Africa, and, from all accounts, she has enjoyed every moment of her job, not just because she is one of the most powerful women in her country—and in all of Africa for that matter— but also because she genuinely likes her job.

When you are with a person who is happy and comfortable with the circumstances of his or her own life, it is possible to really be with that person. Such people do not typically erect barriers between themselves and others because they do not have anything to hide. They allow you to experience the fullness of their personalities and are in turn able to experience yours. Luisa Diogo is such a person—I felt that I was “with” her in this interview and that she was “with” me. She is very clear about who she is, about what she is doing, and about the contributions she is making as a change agent in her society. Indeed, she has a lot to be happy about.

By contrast, it is possible to be with people who are famous and powerful who immediately make you feel their pain. Such people are often overwhelmed by their duties and their responsibilities and they make you feel guilty that you have added to their burdens by taking their time. They typically cannot look at you in the face or concentrate on what you are saying for even one moment because their mind is always somewhere else attending to their other priorities or unfinished business. This is decidedly not the case with Luisa Diogo. When you are with her, she is with you! She is not on a cell phone or trying to have a thousand other conversations with other people on the cell phone while talking to you, as has unfortunately become the habit with many other powerful people, particularly many male colleagues in Africa, who seem to have cell phones permanently affixed to their ears.

Clearly one of the secrets to Luisa Diogo’s success is that she can fully be in the moment. And while in the moment she is definitely a manger *par excellence*. She can concentrate on you because she has finished her other business. She explained, “I am always doing what I am doing at the moment; I am not somewhere else.” Diogo is gifted with the power of concentration. This ability above all others is perhaps the one that enables her to multi-task so effectively and



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to deal with the myriad pressing concerns to which she must attend on a daily basis. While she is interacting with you, her mind is not in a million other places. To the contrary, she behaves like a person who doesn't have a care in the world. To me, she felt like a friend, in fact, like a fun girlfriend, one with whom I could let me hair down and chat.

One cannot help wondering how she got to be the woman she is: how she has figured out a strategy that has enabled her to work as hard as any woman in the world yet to retain the laughter and the joy of life.

### Having a Loving and Supporting Family Matters

Luisa Diogo did not just become happy, nor does her job provide all of the essential ingredients for her happiness; rather, her happiness comes from within and from all of the parts of her life, of which her job, however exalted, is just one part.

She started out life as a happy child with a loving and close-knit family. She did not come from a wealthy or well-connected family; rather, she came from humble beginnings, from a rural area away from the center of power. But her family had—and still has—a deep and abiding commitment to one another. They come together every weekend, and each contributes a share to the upkeep of the family home and to resolving problems that arise. The family patriarch insists that no one person be called upon to provide more support than another, as each is equal in family terms and in his eyes.

Diogo's father was a nurse and her mother was a homemaker. There were eight children in the family, five boys and three girls, with Luisa being the third child. Although her parents did not obtain university degrees, they were both literate and instilled a love for learning in their children. As a consequence many of Diogo's siblings have achieved major successes. One of her brothers is a cardiologist, another one is a mechanical engineer, and two of her sisters have graduate degrees, one in pharmacy and the other in education.

Luisa Diogo is from the northern province of Mozambique. Educational facilities were sparse in her area at the time she was growing up, as in the rest of the country, which is one of the legacies of Portuguese colonialization. When Portuguese explorers reached Mozambique in 1498, Arab-trading settlements had existed along the coast for several centuries. From about 1500, Portuguese trading posts and forts became regular ports of call on the new route to the east. Later, traders and prospectors penetrated the hinterland seeking gold and slaves. Although Portuguese influence gradually expanded geographically, its power was limited and exercised through individual settlers who were granted extensive autonomy. As a result, general development lagged, while Lisbon devoted itself to the lucrative trade with India and the Far East and to colonization of Brazil. In the early 20th century, the Portuguese shifted the administration of much of the country to large private companies, controlled and financed mostly by the British, which established railroad lines to neighboring countries and by supplied cheap--often forced--African labor to the mines and plantations of the nearby British colonies.

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Because policies were designed to benefit white settlers and the Portuguese homeland, little attention was paid to the development Mozambique's economic infrastructure or the skills of its population until the last years of colonial rule.

While the educational infrastructure was underdeveloped throughout the country when Diogo was growing up, there were relatively fewer educational resources in her area than in the capital city of Maputo. Therefore, when it came time for high school, she had to go off to Maputo. Her parents decided that she should take her eleven year old brother with her so that he too could attend school there. The two of them struck out on their own and shared what Diogo referred to as a "teeny tiny little flat." They had no running water and had to get up early each morning to collect water and coal for the fire to cook. They soon developed a system to share responsibilities, with Diogo fetching the water, which took two hours before school each morning, and with her brother fetching the coal. Since her brother's load was heavier than hers, to strike a balance in the workload, Diogo also washed and ironed the clothes and cooked the food. Diogo felt that given the heavy weight of the coal that her little brother had to fetch each day--at least 25 kilograms--she should balance out the burdens by shouldering additional responsibilities.

Diogo and her brother had to walk long distances to and from school each day and to read by dim lamplight in the evenings, yet, she said "This was the best time of my life." She loved the responsibility of being on her own and taking care of her little brother. Her parents sent them a small weekly allowance and they improvised for the rest. When it rained they covered their books and their shoes with plastic. They never felt deprived, however, because they lived just about the same as everybody in all the towns; everybody had to make do. There was no cinema and no television; they had only their books and themselves for amusement, and they had desire to succeed in life as their motivation. They also gleaned inspiration from what was around them.

### Finding Inspiration in Things Around You

One of the first things that inspired Diogo back in her home village was a big building that seemed to connote greatness and power. She walked by this grand edifice every day and wondered, what people did in there. Whatever it was, she said to her father, "Dad, I want to work in that building when I grow up." This seemed to be an impossible dream because at that time—Diogo was born in 1958—women were not allowed to work in the Ministry of Finance. This was also a colonial legacy. Although she and her father were aware of the seeming impossibility of her dream, her father did not dissuade her. To the contrary, he encouraged her. Luisa remembered that her father said: "Luisa my daughter, you are smart, good in math, and you work hard—so maybe one day you can work in that building." Her father was therefore a dreamer too, not for himself, but for his daughter. He had observed that women were beginning to work in the banking field and expressed his hopes that she could one day work in finance.

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## Changing Times in Mozambique

After World War II, while many European nations were granting independence to their colonies, Portugal clung to the concept that Mozambique and other Portuguese possessions were overseas provinces of the mother country; immigration to the colonies soared. Mozambique's Portuguese population at the time of independence was over 200,000. The drive for Mozambican independence developed steadily until in 1962, several anti-Portuguese political groups formed the Front for the Liberation of Mozambique (FRELIMO), which initiated an armed campaign against Portuguese colonial rule in September 1964. After ten years of sporadic warfare and major political changes in Portugal, Mozambique became independent on June 25, 1975. FRELIMO quickly established a one-party Marxist state and outlawed rival political activity. A civil war between the FRELIMO government and the Mozambican National Resistance (RENAMO) began in 1976. RENAMO originally emerged as a creation of the Ian Smith regime in Southern Rhodesia to destabilize the Mozambican government that supported Zimbabwean and South African liberation movements. After Southern Rhodesia became Zimbabwe in 1980, the South African government took over the external sponsorship of RENAMO and began providing the insurgents with logistical support and training. Despite its brutal methods and documented human rights abuses, RENAMO was also able to draw upon strong internal dissatisfaction with FRELIMO to garner some support among local populations.

On March 5, 1984, the governments of Mozambique and South Africa signed the Nkomati accords, which committed both countries to cease hostilities and to search for ways to increase economic cooperation. Thereafter, Mozambique severely restricted African National Congress (ANC) activities within Mozambique, and the volume of official South African support for RENAMO diminished. Mozambique's first president, Samora Machel, died when his aircraft crashed near Mbunzi, on South Africa's border with Mozambique, in October 1986. Joaquim Alberto Chissano, who had served as Foreign Minister from 1975 until Machel's death, succeeded Machel. Despite a reduction in external support to RENAMO, the government was unable to defeat the insurgents. As early as 1980, the stalemate had led the two sides to begin peace talks in Rome under the auspices of Italy and the Catholic Church. Not until December 1990, however, did FRELIMO and RENAMO agree to a partial cease-fire covering two of the country's principal transportation arteries: the Limpopo and Beira corridors. The partial cease-fire continued through mid-1992. Though the negotiations progressed slowly during 1991 and 1992, the parties were able to agree on three protocols regarding the electoral system, political parties, and the structure of the talks. In June 1992, the United States was invited to become an official observer to the talks, and the General Peace Accord was signed in October 1992. A United Nations Peacekeeping Force (ONUMOZ) successfully oversaw the cease-fire and the two-year transition to multiparty elections. The last ONUMOZ contingents departed Mozambique in early 1995.

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## A Time for Goal Setting

As the times changed, Luisa Diogo's family was transformed. Her father, always the possibility thinker, realized that the time had come for his dreams for his family to become a reality. One by one, he helped his children to imagine their futures in bigger and better ways. Diogo's future was carved out already; she was to be an accountant so that she could work in the Ministry of Finance. Her father imagined that her little brother would become a medical doctor and indeed he did just that. As each child worked hard to make these dreams come true, each one contributed financially to the pursuits of the others.

Diogo also benefited from this system of family sharing, although once she finished high school, which her father paid for, she worked to earn the money to pay for her associate degree in accounting at a school in Maputo. In fact, she worked throughout this time: She studied all day and worked every evening to make her way through school. For her, work was a privilege, and it strengthened her character. She learned early on that nothing comes without hard work. Her acceptance and embrace of hard work not only shaped her character but also helped to prepare her to meet the challenges of her current position.

Life up to her marriage at age 23 consisted of school, work, and studying, with nothing in between. Not surprisingly, given her single-minded dedication to all in which she is engaged, she is still happily married today. She does her job with the loving support of her husband and children.

Luisa Diogo's life path has always been on a straight line. Perhaps it was because of the lack of distractions throughout her life that she has been always able to remain faithful to pursuing a single professional goal. That goal, from the time she was a little girl, was to work for the Ministry of Finance; not just because of the grandeur of its exterior, but to the contrary, she wanted it to do much grander things for the people.

She figured out that, in order to work in that building she saw every day as a child, she had to study accounting. When she was finally able to land a job at the ministry, she worked night and day; she worked so hard in fact that reports of her dedication and excellence reached all the way to the Prime Minister's office. Realizing that he had such an honest, capable, and hardworking woman at the Ministry of Finance, Prime Minister Chissano decided that it was time to break up the "old boys club" at the Ministry and he propelled Luisa Diogo forward.

It is important to underscore that Diogo had no family connections to the Prime Minister when he intervened on her behalf; she was not his relative, not his personal nor family friend, nor did she hail from a wealthy and prominent family that might have lined her up for such an important post. She got to where she today is strictly on merit alone. Among her merits are the ability to work hard, the power of concentration, and a single-mindedness of dedication to her work and life's calling.

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## Working Her Way to the Top

Diogo entered the Ministry of Finance and Planning as a low-level technician and accountant in the budget section, but by the time she was 28 years old she had already distinguished herself and was appointed to the position of Deputy Director of Budget. It was in this position that she first understood the challenge of coming up against male opponents, especially those from the Department of Defense. Her male counterparts were flabbergasted that they had to negotiate with a woman and presumed that she had only been appointed to her position because of affirmative action. Their attitudes never fazed Diogo; as she put it “I was just happy to be doing what I was doing.” She had also assuredly earned the right to be where she was.

Diogo holds a Master's degree in Economics and has worked in the Ministry of Planning and Finance since 1980: first as a Program Officer from 1980 until 1986, then with the Study Department from 1986 to 1989, then as head of the Budget Department from 1989 to 1992, then as National Director of Budget from 1993 to 1994, followed by a two-year position as a consultant with the World Bank in Maputo, from 1994 until 1996. She rejoined the ministry in 1996 as the Vice Minister of Planning and Finance and has served as Minister of Planning and Finance of Mozambique since 2000.

What exactly had Diogo envisioned doing at the Ministry of Finance and Planning before she began working there? She explained that her thinking always harkened back to her impressions as a child. Early on she realized the importance of education and health care. As her grandfather had been a teacher and her father a nurse, she was particularly sensitive to the issues within their domains. Once she was able to understand the role that the finance ministry played in the economy, she knew that she wanted to work within it in order to be “a champion for the education and health care agendas.”

Diogo reflected that she was probably about ten years old when she first understood the role that money could play in society. Money was a verb to her; it did things and was not just something to have. Money built houses; it built schools and hospitals; and it fed the people. Herein lies the key to Diogo's approach to directing the Ministry of Finance and Planning. When she receives proposals that require financing, she has one guiding principle that determines her response: She needs to know what the money will be doing. She insists to those who would approach the ministry with proposals for financing that they must “make the figures talk—let the figures tell about the lives of the people.”

For every dollar budgeted, she explained, she insists on knowing how many people it would benefit—and she wants to know this figure in terms of how the people live their lives. For instance, she wants to know how much would a plan reduce the distance women need to walk to fetch water, or how many more households would receive electricity so that children can read at night—and not by a candlelight as she had to herself.

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Diogo always establishes the connection between the money pledged for public works and improvement in the lives of the people. The Minister emphasized: "The money has to talk and tell the story of the lives it will improve or I will not support the proposed spending initiative."

She remembers vividly from her childhood that the grand building that was the Ministry of Finance did not bring more money for children to go to school, nor did it bring more work for people to be employed. Today, she has realized her dream of making that building work for the people a reality.

Throughout her career at the ministry, Luisa Diogo has taken many steps to ensure that other prominent persons around her have safeguarded the integrity of the governing process. For instance, she once accused a prominent lawyer and opposition politician of using the country's parliament, the Assembly of the Republic, for the benefit of some of his clients. She revealed the then accused, Maximo Dias, a deputy for the Renamo Electoral Union coalition, had among his clients people who were accused of defrauding the Mozambican customs, and of participating in the country's largest bank fraud, in which 144 billion meticaís (14 million dollars) was stolen from the Commercial Bank of Mozambique (BCM) just prior to its privatization in 1996. Passionately arguing her case, Diogo asked, "If Dias ever owned a bank, and that bank suffered a major fraud, would Dias turn to the clients and say 'Sorry, you can't have any of your money, it's all been stolen—come back after there's been a court case?'" "That's not possible," she added. "The client is blameless. He deposited the money on the basis of trust, and has the right to withdraw it ...we have to replace what belongs to the depositors." The Minister made it clear: "We want the money back." "Maximo Dias cannot say we should pardon the thief who happens to be his client. We have no intention of pardoning anyone." Diogo insisted that the government would ensure that the case did come to court. As for where the money came from to pay the BCM, Diogo said the government took it from the sterilized account where counterpart funds in meticaís from World Bank money is deposited. This money is not normally used for such purposes, but the World Bank had authorized the government of Mozambique to use it to pay the BCM.

This is just one example of Luisa Diogo's fight for the cause of justice. Such fights are sometimes unavoidable in her efforts to safeguard her dream of making the ministry, and indeed, the whole governing process, serve the people. She has worked hard to put systems and procedures into place to prevent corruption and to increase transparency; had such systems not been put in place, Mozambique would not have been as successful as it has been in negotiating with donors for debt service relief. In order to develop state-of-the-art systems for fighting corruption, Diogo has endeavored to learn from best-case practice models. In this regard, she has gone around the world and reviewed the anti-corruption measures of many countries including those of Portugal, Botswana, France, the United Kingdom, and the United States. In order to integrate these lessons into models that are appropriate for Mozambique, the ministry has retained consultants from Harvard University. Their recommendations for new anti-corruption

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measures—that would replace those inherited from 1901 under colonial rule—have been vetted through meetings and workshops with civil society groups throughout Mozambique. Once the inputs from stakeholders were taken into account from these fora, the new proposal was put before the Parliament. It is expected that the new system will come into force in January 2003. In the meantime, over 4,000 civil servants are receiving training in the new procedures. Diogo has also organized a unit for reform that reports directly to her, and a steering committee of donors.

To further safeguard her dream of making the ministry serve the people, the Minister has decentralized and spread authority more evenly within the ministry. Previously, all power was in the Minister's hands. She has changed this situation and has devolved power down to regional governors and to permanent secretaries. As she has engaged in these reforms she has also been mindful that she cannot bulldoze through her organization; rather, she has had to "determine" it gradually, which is a process that ensues on a daily basis. She knows too well that putting out a fire in one place on one day does not mean that there will not be another that springs up on another day in another place. It is incumbent upon her to remain vigilant and to monitor progress on all fronts at all times. As she has devolved power downward, she has created a team of stakeholders who work together with her in ensuring that all systems are working and that everyone is working toward the same goal.

The key to being able to stay apprised of developments that have a bearing on the ministry's success is having a system of operations and procedures that is predictable so that everyone in the system knows his or her responsibilities. Therefore, the Minister starts out with a clear agenda for the year, one that is replete with a set of objectives, with a schedule of activities, and a matrix of expectations and tasks at every level for each operational unit. To adhere to this plan, the Minister works six days a week.

Monday is the day for the Minister's consultation with the Governor of the Central Bank. In the example of the United States, Luisa Diogo's role as the Finance and Planning Minister would be akin to that of the Treasury Secretary and the Office of Management and Budget combined, whereas that of her counterpart at the Central Bank would be akin to the role played by Alan Greenspan, who controls monetary policy. Together they are concerned with fiscal and monetary policy for the nation: The Minister of Finance and Planning's is concerned with spending for development while the Governor of the Central Bank is concerned with the supply of money to underwrite such spending. They have to coordinate closely and to trade-off their priorities. To hear Diogo tell it, they do this in the most congenial way, constantly bargaining with each other to reach the optimal solution for the given problem.

Cabinet meetings are held on Tuesdays; therefore Diogo does not schedule other important meetings for this day. If the Cabinet session is light, she uses the balance of the day to meet with her heads of departments. The Minister is serious about keeping her word in all matters, so she is careful not to schedule appointments that she may not be able to keep. To ensure

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that she is moving in lock step at the Cabinet meetings with the agreements reached with her technical team, she schedules a one-hour meeting with her deputy minister and with her permanent secretaries prior to each Cabinet meeting so that can refine their game plan. In this way, despite her enormous power and influence, she conveys to her team that she is representing their joint interests and approaches. It is no wonder that she is so well liked both inside and outside her country.

Wednesdays are set aside for technical meetings with her technical directors of departments. Diogo relishes these sessions because she continues to view herself as a technician, and does not want to lose her technical skills just because she is a manager. She gets deeply into the technical issues that come before her; she is not just presiding over these meetings, she is an active participant, keeping her eye on the ball to ensure that the “figures are talking about how they will improve the lives of the people.” During these meetings, which typically last three hours or more, the Minister encourages frank interchanges with her staff. She solicits their views about options and alternative courses of action. As part of the technical team, she expresses her own opinions and encourages others to give theirs as well.

Thursdays can be the longest day for Diogo because every fifteen days there is a consultative meeting for department heads within the Ministry of Finance and Planning. The breadth of responsibilities of the ministry virtually spans all segments of the economy and touches upon all aspects of the economic development and growth of the nation. The consultative meetings are aimed at identifying priorities, accomplishments, and the next steps across a broad spectrum of issues. The scope and significance of these issues cannot be exaggerated; they include industry concerns, privatization, investment promotion, and the bread and butter issues of the economy.

In her capacity as Minister for Finance and Planning, Diogo is responsible for strategy at both ends of the spectrum: on the one hand in managing current and past obligations, and on the other for planning for the future. Arguably her most difficult challenge as Minister is the constant battle to negotiate for debt relief from donors. Her tenure with the World Bank as a consultant, however, has helped paved the way for her effectiveness as a negotiator with foreign donors.

### **Box 10.1: *A Beneficiary of Major Debt Relief***

Mozambique's development plans in the immediate post-independence years involved running up substantial foreign debt. When war and drought leveled the economy in the mid-1980s, the debt became unpayable. The war also led to a high military debt to the Soviet Union.

By 1998, Mozambique's total foreign debt, even after repeated reschedulings and write-offs by various bilateral creditors, stood at \$5.5 billion in nominal terms. Complex negotiations eventually resulted in the World Bank and IMF declaring in April 1998 that Mozambique was eligible for debt relief under the Heavily Indebted Poor Countries (HIPC) initiative. In June 1999, some \$1.7 billion of Mozambique's debt was waived.

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*(Box 10.1, continued)*

After the floods, several creditors -- including the U.K., U.S., Finland, Spain and Portugal -- agreed to suspend all or part of the debt payments Mozambique owed them. Similarly, the World Bank and the IMF offered a "moratorium" such that Mozambique would not have to pay them any debt service in 2000, but the money would still be claimed later. Mozambican and foreign NGOs campaigning for total debt cancellation described this as "immoral," and argued that the floods were another reason for eliminating Mozambique's debt burden entirely.

Then the World Bank announced in April that Mozambique qualified for additional relief under the "enhanced" HIPC, approved by creditor countries in November 1999. Once fully implemented, cumulative debt cancellation will have reached \$4.3 billion in nominal terms, or nearly \$2 billion in net present value (the discounted value of debt if it were repaid in a lump sum). This will reduce Mozambique's debt stock to about \$750 million in net present value terms.

Full relief will not come, however, until Mozambique satisfies certain conditions. According to the World Bank and IMF, these will include implementation of agreed social development measures as part of the government's poverty reduction strategy, further reforms of the public sector and in the legal and regulatory framework, and maintenance of "satisfactory performance" under the IMF's Poverty Reduction and Growth Facility.

Shortly after the World Bank announcement, the new Finance Minister Luísa Diogo told reporters that this year Mozambique would pay only \$23-25 million in debt servicing, compared with \$104 million in 1999. Although this decline is very welcome, she said, Mozambique's debt remains a "serious constraint on the fight against underdevelopment," and the government will continue to fight for total cancellation. "This is a poor country," she stressed, "and every cent that this country pays out abroad is taken from Mozambicans," two-thirds of who live in absolute poverty.

Source: *AllAfrica.com*

This aforementioned presents the situation as of 2000. Minister Luisa Diogo is still engaged in serious battles to reduce the nation's debt and its servicing burden. Mozambique wins many of these battles because it can claim overall good management of the economy, thanks in large measure to the role of the Ministry of Finance and Planning.

### **Box 10.2: UK Forgives US \$152 Million Debt**

U.N. Integrated Regional Information Networks  
Posted to the Web ([www.allafrica.com](http://www.allafrica.com)) May 16, 2002

Mozambique secured its image as the poster child of donor countries on Thursday as Britain announced that it had written off all of the country's bilateral debt. The US \$152 million was scrapped under the Heavily Indebted Poor Countries (HIPC) debt relief scheme, British embassy officials in Maputo said. Minister for Finance and Planning Luisa Diogo told IRIN: "The forgiveness is crucial in delivering Mozambique's Action Plan for the Reduction of Absolute Poverty."

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*(Box 10.2, continued)*

"The savings will allow us to spend more money on education, health, infrastructure and rural development. Eighty percent of the population depend on agriculture as a primary source of income," she added.

The debt relief was signed late Wednesday by Britain's Junior Foreign Minister for Africa, Baroness Valerie Amos, and Mozambican Foreign Minister Leonardo Simao. A senior Mozambican foreign affairs official said that donor countries were rewarding one of Africa's poorest countries for its commitment to good governance. "We have shown that we are committed to reducing poverty by implementing strong IMF-supported economic policies. Our reward is well-deserved," desk officer for the United Kingdom, Eufresio Gouveia, told IRIN. Gouveia added that the British government's decision to drop the debt would hopefully set a precedent for other foreign governments. "More recently we have had very positive discussions with the Germans about writing off the bilateral debt," he said. Before qualifying for HIPC, Mozambique, one of the world's poorest countries had a staggering foreign debt of more than US \$5 billion. Most of the debt has now been forgiven. Mozambique's debt stands at slightly under US \$1 billion.

The Minister has always been consistent in her goals and strategies, and one of her main goals has been to increase the share of spending on education and health. More than twenty years after the start of her professional career at the Ministry of Finance and Planning, she remains committed to this goal and is doing everything in her power to help improve the lives of the people of Mozambique.

### The Ups and Downs of the Economy

The headlines in a widely read Mozambican newspaper in September 2001 read: "Economy Grows By Nearly 15 Percent." In explaining this good news, the Minister reported that the Mozambique Aluminum Mozal smelter had contributed an estimated 4 percent to this growth. She told a press conference in Maputo at the time that the accumulated inflation for that period was 5.1 percent and noted that there had been a decline in the prices of basic commodities, which could contribute to the stability of the metical (the Mozambican currency).

In a poor economy like Mozambique's, there is often unfortunately as much bad news as good news. Bad news came just months before the good news described above. An April 2001 local headline read: "Minister Offers No Hope to Cashew Industry." Speaking to reporters of the government's plans for 2001, Planning and Finance Minister Luisa Diogo argued that the Mozambican cashew industry needed a different kind of factory, a small scale one with lower costs. The news came when the most modern of the large factories, Mocita, in the southern city of Xai-Xai had recently closed its doors. It was the last of the major factories: The others had succumbed much earlier to the withering impact of the World Bank's policies on liberalization of the trade in cashew nuts.

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This news met with harsh criticism from many citizens who proclaimed that the failure of the Mozambican cashew industry was a practical result of liberalization, which had encouraged the export of raw nuts to India, thus causing Mozambican factories to close down and casting thousands of cashew workers into unemployment.

Despite such criticism, Diogo stated emphatically that she did not envisage the large factories reopening. She reported, "The situation has already happened." She also explained to the public "the future lay in 'reconversion' to other types of processing units, while the money from the 18 per cent surcharge levied on raw nut exports should be ploughed into planting more trees to rejuvenate the cashew orchard. When it was pointed out that small, supposedly more efficient cashew plants were closing along with the large ones, the Minister could only answer, "We have to continue to work. We have to believe in ourselves, and that Mozambique has a comparative advantage in cashew production." Diogo further explained that she wanted "rational use" of the money from the surtax, so that planting could resume as rapidly as possible. She did not say how many trees are currently being planted. Certainly planting needs to be on a mass scale if it is to reverse the long-term trend of decline. Mozambique's cashew orchard is ageing and diseased: According to one estimate a million cashew trees are dying every year. To improve the prospects for commercial production, more than a million would have to be planted every year. Diogo had stressed such measures as fumigating cashew trees (to deal with insect pests and fungal diseases), and assessing the true customs value of raw nut exports. However, the FOB prices quoted by exporters of raw nuts subsequently collapsed (to prices of around 415 dollars a ton, compared to 700 dollars a ton Indian companies were paying in 1999). Diogo's response was that the government was investigating these prices for under-invoicing (to avoid paying the surtax) and to determine whether the quality of Mozambican nuts was so poor as to justify such low prices.

Whatever the nature or cause of the problem, as the manager of the economy, the Minister has to deal with it and to face any criticism of the handling of the situation. Making difficult choices and being a change agent in one of the poorest countries in the world is a Herculean task. Luisa Diogo has taken on this task, and one can readily see that she is up to the challenge.

One of the most devastating challenges she has had to face in managing the economy of her country is dealing with rebuilding the economy in the aftermath of natural disasters. In July 2001, local headlines read: "Continuing to Rebuild After the Floods." The Minister developed a Post Floods Reconstruction Program for the central region of the country to help resettle the population, resume the food production, resume basic services, and to reconstruct basic infrastructure to reduce vulnerability. She noted the program should be seen as part of its five-year strategy to reduce absolute poverty and explained that an estimated US \$132 million was needed to implement the reconstruction program: The government expected to spend US \$36.4 million on the social sectors; US \$51.8 million on rehabilitating basic infrastructure, US \$23.2 million on productive sectors and US \$20.3 million would be directed to reduce vulnerability to disasters in the central region in the country.

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Constant flooding is a major development problem for Mozambique. In 2000, as Luisa Diogo was preparing to attend the "Consultative Group" meeting in Paris, which brings together the main donors and funding agencies that support the Mozambican economy, she underscored that "the maintenance of macro-economic stability in Mozambique cannot be ignored just because of post-flood reconstruction in the south and center of the country." She told reporters that the government would be going to the meeting in Paris with proposals not only for urgent rebuilding of infrastructures destroyed by the flooding, but also for measures to resume a high rate of growth, combined with poverty reduction. "Reconstruction after the floods could not be allowed to override all the government's other plans," she stressed. We must ensure that the economy continues to function in the rest of the country." Diogo also advised that Mozambique would be asking for some 440 million US dollars in new funds at the meeting, which was to be in addition to the 453 US million dollars pledged for reconstruction at the donor conference on the floods held in Rome earlier in that year.

Diogo said at the time, "If all goes well and Mozambique qualifies in March 2001 for the 'enhanced' version of HIPC (Heavily Indebted Poor Countries) initiative, then next year's debt servicing will be lower than 23 million dollars." We now know in retrospect that things did indeed go well and that Mozambique received enhanced HIPC. Diogo explained to the public, on her way to the consultative meetings, that the government would maintain a restrictive fiscal and monetary policy, and it that would certainly not print more money just to cover public expenditure.

One of the recent issues the Minister dealt with was the reform of the Mozambican customs service. She said that the British managers who had been running customs were gradually being replaced with Mozambicans. "The contract with the British company Crown Agents was renewed, but on a 'phasing out' basis. By 2002, the customs service was to have been entirely in Mozambican hands. This plan, however, did not rule out foreign technical assistance, possibly from Crown Agents or other companies, in specific areas, notably anti-corruption units, she explained.

Diogo also said, that a rapid growth rate in the economy would require the government to develop specific national policies, particularly in the industrial sector, and she predicted that "this would entail making awkward choices, for instance, on the future of the textile factories, most of which are currently paralyzed. The Minister emphasized that there needs to be rigorous monitoring of progress against concrete targets, and not just good intentions, she insisted.

The Minister has recently been able to secure World Bank funding of about US\$195.6 million to assist the government in improving road sector management and strengthening the capacity of municipal governments to provide quality infrastructure and services. The roads and bridges management and maintenance program is part of a ten-year program designed to help stimulate growth and contribute to poverty reduction through improved road infrastructure, sector policies and management. The Bank highlighted that the program encourages employment of

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women in the roads sector to strengthen the capacity of municipal governments in the areas of management, finance and the provision of infrastructure and services.

The number of complex issues that the Minister must contend with in managing the economy is overwhelming. One of the difficult and pressing issues she had to deal with immediately on taking up the mantle as Minister was the need to help the troubled commercial banks. The local headlines of November 2000 read: "Mozambique to Float Bonds to Prop Troubled Commercial Banks." Indeed, the Mozambican government had to sell bonds in order to rescue the distressed Commercial Bank of Mozambique (BCM) and the Austral Bank. Both banks, once state-owned, were privatized in the 1990s, but the state had maintained a 49 percent share in the BCM, and a 40 percent share in the Austral Bank. The government stated that it had hoped to raise the equivalent of 80 million US dollars to "refinance" the two banks; 50 million dollars for the BCM and 30 million for the Austral Bank. The BCM incurred a staggering and unexplained loss of 127 million dollars in 1999. Its shareholders decided to increase BCM's capital to about 106 million dollars as the minimum sum required to bring it within the solvency limits established by the Central Bank. Of this sum, the government had to contribute 49 percent, or 52 million dollars. When a representative of a Nordic country, during a donors' meeting, wanted to know where the money for the BCM would come from, Finance Minister Luisa Diogo replied that the government would issue treasury bonds. But such bonds can only be sold if they bear an attractive rate of interest. The interest rates that were to be offered could not be confirmed, but banking sources were quoted as suggesting that the rates would range from 17 percent to 18 percent. While it was initially unclear as to how the massive losses originated, the Minister subsequently uncovered and publicly exposed corruption.

### Looking Forward

The foregoing provides a small glimpse of some of the pressing issues with which the Minister has had to contend in her relatively brief tenure; it also conveys the enormity of the challenges facing the development of the nation and of the task before the Minister herself.

The Minister not only has responsibility for ongoing operations of the ministry, she is also responsible for planning. In the latter capacity she is required to look far into the future to imagine a better overall economic situation for the nation, one in which her dreams for adequate education, health care, and housing become an even greater reality for the nation.

In addition to basic concerns, the issue of how to increase Mozambique's competitiveness and how to attract investment is an overriding current concern. Accordingly, the Minister attended a UNIDO-sponsored workshop in August 2002 on encouraging sustainable public-private consultative (PPC) mechanisms, which are deemed critical to competitiveness and attracting foreign investment. It was recognized that the real challenge is to define and institutionalize specific agreements. Accordingly, the recommendations in the final report of the first national seminar on the subject in Mozambique—"Implications and Benefits of Sustainable Public-Private

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Sector Consultative Mechanisms"—deal with a number of sensitive issues that have to be met in facing that challenge.

Minister of Finance and Planning, Luisa Diogo was the moderator of a panel that considered possible options for public-private partnership, including the establishment of a sustained national consultative platform in Mozambique. She reiterated that the question of mandate is a sensitive issue, and in her view it is one of the weakest points in the dialogue process. The recommendation in the report that "The national public-private body should have a formal structure and should be established, preferably through statutory instruments" is a clear response to the Minister's concerns over the question of mandate, as the PPC mechanism would then have the endorsement of Parliament. In its "Conclusions and Recommendations" the report also says, "As Mozambique gradually transforms its economy from a public sector-driven economy to a private sector-led economy, the private sector has been the primary engine steering the consultative process. In the last few years, the public sector has demonstrated its willingness to engage in dialogue and has itself initiated consultative mechanisms and partnership with the private sector. The government is also gradually creating the right environment in which the private sector can grow and become more competitive. However, it is realized that there are shortcomings in the consultative process." The fourteen recommendations agreed upon at the seminar are evidence that a serious dialogue has begun. When implemented, they will more than resolve these shortcomings.

The Minister stands ready to meet all challenges that face the development of the nation, and as she does, she does so with the loving support of her husband and children.

Diogo said that her husband was recently interviewed in Maputo and when he was asked the question of how he can accommodate his wife's busy schedule, he explained that "he had a system with the two children that when mommy comes home, if she appears to be particularly burdened that day that they do not bother her with small issues. However, if after he sticks his toes in the water and finds it to be tepid, then they can all proceed and to address all of the issues of the day with her." The Minister was surprised by her husband's comments and said that she didn't even know that their understanding was so deep, as they had never discussed such things.

Indeed, there is a deep understanding of the Minister's mission in her household and in her country and the waters are calm! ■