

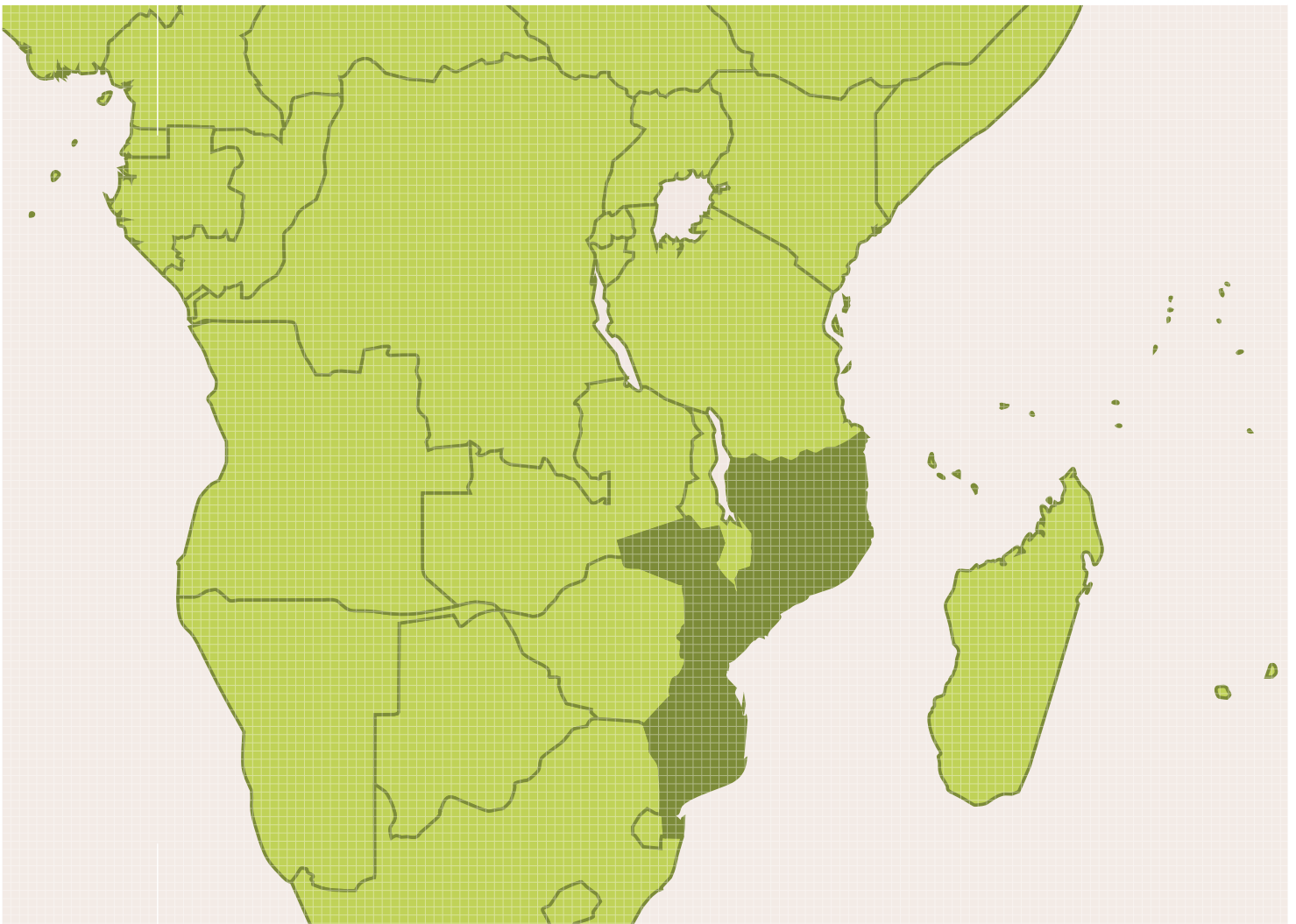


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Mozambique: A Political Economy Analysis

Aslak Orre & Helge Rønning



Report commissioned by the Norwegian Ministry of Foreign Affairs

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Chr. Michelsen Institute

Report commissioned by the Norwegian Ministry of Foreign Affairs
October 2017

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About the report

In June 2016, the Norwegian Ministry of Foreign Affairs (MFA) commissioned NUPI to provide political economy analyses of eleven countries (Afghanistan, Ethiopia, Haiti, Malawi, Mali, Mozambique, Myanmar, Nepal, Somalia, South Sudan and Tanzania) deemed important to Norwegian development cooperation. The intention was to consolidate and enhance expertise on these countries, so as to improve the quality of the MFA's future country-specific involvement and strategy development. Such political economy analyses focus on how political and economic power is constituted, exercised and contested.

Comprehensive Terms of Reference (ToR) were developed to serve as a general template for all eleven country analyses. The country-specific ToR and scope of these analyses were further determined in meetings between the MFA, the Norwegian embassies, NUPI and the individual researchers responsible for the country studies. NUPI has also provided administrative support and quality assurance of the overall process. In some cases, NUPI has commissioned partner institutions to write the political economy analyses.

List of acronyms

| | |
|---------|---|
| AU | African Union |
| BRICS | Brazil, Russia, India, China, South Africa |
| CAR | Central African Republic |
| CEO | Chief Executive Officer |
| CFM | Companhia Ferroviária de Moçambique (Mozambique Railway Company) |
| CIP | Centro de Integridade Pública (Mozambican Centre for Public Integrity) |
| CMI | Christian Michelsen Institute |
| CNPC | China National Petroleum Corporation |
| CSO | Civil Society Organisation |
| DFID | Department for International Development (UK) |
| DSA | Debt sustainability analysis |
| EDM | Electricidade de Moçambique (National electricity company) |
| EITI | The Extractive Industries Transparency Initiative |
| EMATUM | Empresa Moçambicana de Atum (Mozambique Tuna Company) |
| ENH | Empresa Nacional de Hidrocarbonetos (State oil company) |
| ENI | Originally Ente Nazionale Idrocarburi (Italian Oil company) |
| FADM | Forças Armadas Moçambicanas (Mozambican Armed Forces) |
| FORCOM | Forum de Radios Comunitarios. Organisation of community rádios. |
| FRELIMO | Frente de Libertação de Moçambique (Mozambique Liberation Front), usually known under the party-name Frelimo. |
| GCCC | Gabinete Central de Combate à Corrupção (Central Office for the Combat against Corruption) |
| GALP | Portuguese energy company |
| GDP | Gross Domestic Product |
| HDI | Human Development Index |
| HIPC | Highly Indebted Poor Country |
| IAF | Inquérito aos Agregados Familiares (Family Aggregate Survey) |
| ILPI | International Law and Policy Institute |
| IMF | The International Monetary Fund |
| INP | Instituto Nacional de Petróleo (National Petroleum Institute) |
| IOF | Inquérito sobre Orçamento Familiar (Family Budget Survey) |
| ISC | Instituto de Comunicação Social (Institute of Social Communication. Government community rádios institute.) |
| KOGAS | Korea Gas Corporation |
| KTV | Televisão Klint |
| LAM | Linhas Aéreas de Moçambique (National airline) |

List of acronyms | Aslak Orre & Helge Rønning

| | |
|----------|--|
| LED | Local Economic Development |
| LNG | Liquefied Natural Gas |
| MAM | Mozambique Asset Management |
| mCel | Moçambique Celular (State mobile phone company) |
| MDG | Millennium Development Goals |
| MDM | Movimento Democrático de Moçambique (Mozambique Democratic Movement) |
| MEF | Ministério de Economia e Finanças (Ministry of the Economy and Finance) |
| MISA | Media Institute of Southern Africa |
| MOZAL SA | Mozambique Aluminium (aluminium smelting company) |
| MTA | Mozambican tax authority |
| NGO | Non-Governmental Organisation |
| NORFUND | Norway's Development Finance Institution (for business) |
| NRGI | Natural Resource Governance Institute |
| ODA | Overseas Development Aid |
| OfD | Oil for Development |
| OJM | Organização da Juventude Moçambicana (the Organisation of Mozambican Youth) |
| OMM | Organização da Mulher Moçambicana (the Organisation of Mozambican Women) |
| OTM | Organização dos Trabalhadores de Moçambique (the Organisation of Mozambican Workers) |
| PEA | Political Economy Analysis |
| PFM | Public Financial Management |
| PGR | Procuradoria-Geral da República (Attorney General's Office) |
| RENAMO | Resistência Nacional Moçambicana (Mozambican National Resistance), usually written Renamo. |
| RTP | Rádio Transmissão Portuguesa (Radio Transmission of Portugal) |
| SAAP | Southern African Power Pool |
| SADC | Southern African Development Community |
| SAP | Structural Adjustment Programme |
| SISE | Serviço de Informações e Segurança do Estado (State Information and Security Services). |
| SME | Small and Medium size Enterprises |
| TDM | Telecomunicações de Moçambique (National telecommunications company) |
| TIM | Televisão Independente de Moçambique (Mozambique Independent TV) |
| TVM | Televisão de Moçambique (Mozambique Television) |
| UNDP | United Nations Development Fund |
| USAID | The United States Agency for International Development |

Executive summary

- This report uses a political economy analysis to shed light on some of the paradoxes that characterise Mozambique mid 2017: Entrenched poverty, the resuscitated armed conflict/war, the trust crisis between the Mozambican (Frelimo) government and its development partners, the spiralling debt and the party-state.
- Since 2017, Mozambique is arguably at one of its most critical moments since the end of the civil war, in a crisis-like cocktail of political, economic and social problems. By the time of writing, the Mozambican authorities only released the content of the Kroll report (an independent forensic audit of the ‘secret’ loans taken up in 2013) in summary form. The major actors in Mozambique and its international stakeholders were trying to figure out the most apt responses to its conclusions: At the time of writing, far from all was known about the loans and the whereabouts of the money, since Mozambican authorities had not fully cooperated with the auditors.
- Mozambique defaulted on its foreign debt in 2016, which has become unsustainable for the immediate future. The ‘secret’ loans explain a smaller part of the new debt, while heavy international and domestic borrowing and public spending after the discovery of large new mineral resources drove up the debt levels.
- The economy unhinged not by a full-blown resource curse, but rather by the mere prospect of large future income from the offshore LNG gas and coal, which we dubbed the “pre-source curse”.
- Mozambique’s population is young and fast growing. The country’s formal economy has struggled to create enough employment during the times of boom, and this will prove an even bigger challenge in a context of lower growth. The largest population concentration is in the Northern provinces, which is also where the opposition parties have their strongholds. This contributes to a constant centre-periphery tension in Mozambican politics.
- Mozambique made very important leaps in terms of human development during the 1990s and early 2000s, but improvements have not been impressive since. There were nearly as many poor people in Mozambique in 2015 as there were in 1996. Since the population has grown, the percentage of poor people declined.
- Mozambique experienced very high growth levels during nearly two decades until 2014, but has dropped to little less than the rate of population growth since then. There has been no major industrial transformation of Mozambique, and the rewards of the long period of growth have been very unequally distributed. Therefore, and with difficult economic times ahead, poverty rates may rise again.
- Mozambique’s economic strategy (or *de facto* priority) has been oriented around a small number of so-called mega-projects in hydropower and the extractive industries, in addition to the giant aluminium smelter Mozal. Mozambican economists and others

- point out the limited positive impact of the mega-projects in overall employment and poverty levels. We note a long-term lack of priority of the sector in which most of the population is engaged, that is rural small-holder agriculture.
- While Mozambique elicited much optimism for its economic and governance performance until about 2014, its subsequent performance has disappointed many. We argue that the optimistic assessments and the prospects of giant future revenues from the extractive sector were often based on superficial observations and unrealistic prognoses, ignoring the structural limitations that characterise it as well as the non-productive character of the political economy.
 - Corruption at all levels of government (grand and petty) remains a defining characteristic of Mozambique's political economy, leading to annual losses of hundreds of millions of US dollars, possibly billions. One of the consequences is the very low quality of most public services.
 - Mozambique remains exceptionally dependent on ODA – a situation that is likely to remain for the near future. Emerging powers, China, Brazil and South Africa in particular, have an increased importance in the political economy, but are not near to end the donor dependency, in particular not with the new debt crisis. Mozambique's development partners (donors) are currently searching for an overall approach to providing aid and its coordination.
 - Frelimo has ruled Mozambique since 1975, and has won all general elections since the introduction of the multi-party constitution in 1990. The Frelimo-dominated Executive is very powerful, and formal institutions and informal mechanisms of “checks and balances” in the state and civil society are over all weak.
 - Crime and attacks against the justice sector professionals and critical voices are serious impingements on the rule of law and threaten freedom of expression.
 - While starting out as a one-party regime, Frelimo's entanglement in the state makes the term “party-state” remain an apt characterisation. The party's control of the Presidency and the parliamentary majority has rendered it dominant at all levels of state and public power.
 - Mozambique has since independence depended on shifting foreign backers for financial and technical assistance.
 - The Frelimo party-state system has not diminished in importance. Frelimo dominates the appointment of staff to both the central and local state apparatus and most public institutions. Rewarding party-loyalists with jobs and other privileges (patronage) is a fundamental mechanism of Mozambique's political economy, but the party is also actively seeking to block the entry of the opposition parties in the local state apparatus, as well as other institutions at the local level (the representative councils, traditional authorities). Thus, Frelimo maintains a virtual monopoly on the distribution and channelling of state resources (often including ODA).
 - Frelimo is a centralised, but not a monolithic party. After a strong president lost his grip on power (Armando Guebuza), the party is now divided by rivalries between different factions. It is important to remember this when assessing current political discussions within the party. Currently, President Nyusi is struggling to assert his position.
 - At stake is, not least, access to the state. The Frelimo party is the main hub for negotiating access to the principal source of enrichment in the country, state resources and privileges, making it the principal arena for rent seeking. No independent entrepreneurial-, capitalist-,

or business class exists outside of the Frelimo party.

- The concentration of power in the Frelimo party, despite the fact that the opposition has won a large section of the electorate in repeated (and controversial) elections, is one of the main underlying factors that explain the outbreak of the armed conflict again in 2013. Renamo's demand has always been to rule the country, or as a second best, to have a share of state institutional powers (most notably in demanding the right to appoint governors in the provinces where they claim to have won elections).
- Mozambique has a dual, or bifurcated, local governance system – one rural and one urban. In the urban municipalities, there are local elections. The rural districts are ruled directly by the Frelimo-appointed officials.
- The Renamo party has a much weaker organisation than Frelimo (and has none of its resources), but is a consistent opposition party relative to other African countries. Politically, it is best understood as a pragmatic “negation” of Frelimo power.
- There is currently a window of opportunity for peace created by Renamo's President Afonso Dhlakama declaring a ceasefire. Due to the bilateral character of the current negotiations between the two armed parties, some sort of power-sharing agreement is a possibility, with consequences for local governance.
- A major upcoming challenge for the Frelimo-state will be its ability to distribute patronage and “entertain” the clientelism based mode of political support in times of austerity (which will inevitably come during the next years). This is a major risk for the stability of the entire political system.
- If poverty reduction is to remain the overall objective of Mozambique's development partners and for the Mozambican government, then the current economic and political model, including the role of development partners, should be reconsidered. The following elements are vital for a reform agenda:
 - o De-facto separation of party and state. Supporting “the state” is not an apolitical affair.
 - o End of “winner-takes-all” and introduction of de-facto power sharing
 - o Peace and stabilisation, end of vilification of political opponents.
 - o The major risk of a resource curse, and acknowledging the problems with the extractive industries.
 - o Find a broad-based development model that promotes the productive capacities and welfare of the impoverished majority.
- Norwegian development agencies also stand before major decisions, not least with respect to the Oil for Development programme. It should make sure that the potential benefits outweigh the significant risks associated with the giant LNG development, such as the significant risk that despite the good will of OfD and other donors, Mozambique's petroleum resources may never benefit the majority of Mozambicans.
- If international actors, the Mozambican authorities and its civil society actors can manage to focus on a broad-based development programme and key governance reforms, and if the country has some luck with the conjunctures of prices for its extractive industry goods, the country may realistically face a scenario of partial and unstable, but incrementally positive change. There are also significant risks of a more negative scenario playing out.

1. Introduction

1.1. Background to this study

This study of the political economy¹ of Mozambique was commissioned by NUPI, on behalf of the Norwegian Ministry of Foreign Affairs in October 2016. The report will provide information to ‘contribute to a shared understanding of the country context’, ‘identify opportunities and constraints, including risks’ and to ‘strengthen bilateral relations’.²

Political economy analyses (PEAs) attempt to come to grips with how political and economic power is constituted, exercised and contested. It may look at specific areas of development or a broader context – in this case Mozambique – as a political and economic entity. This study of the political economy of Mozambique aims at making sense of the logics and interests behind the main political actors and interests groups, how they make economic decisions for political reasons, and, vice-versa, how they make political decisions for economic reasons.

In the context of development practice, a PEA should help ‘understand what drives political behaviour, how this shapes particular policies and programmes, and who the main “winners” and “losers” are. PEAs should look at interests and incentives, both formal and informal institutions (culture and norms) as well as the values and ideas (ideology, religion) that influence the

behaviour of the crucial actors.’³ Hence, methodologically it combines knowledge of the basic political institutions and economic structures that shape the broad framework of power along with knowledge of the main actors – the political, economic and sociological stakeholders. The political economy analysis looks for long-term trends and semi-permanent features.

However, the political economy of any given country does not constitute a static-permanent situation. The logic underlying the political economy will always change over time: Major structures ebb and wane (geopolitics, world economy, commodity prices) and new actors arrive on the stage while others disappear (that is, political parties, development partners). This political economy analysis aims at explaining the situation in Mozambique as of the first half of 2017 and tries to emphasise the more permanent changes on the horizon from merely ephemeral events – even if these seem to be decisive in fundamental ways. On the other side of these events, key actors may have disappeared from the scene and the stage upon which politics and the economy play out may look very different.

1.2. The riddles of development in Mozambique

Mozambique has produced a number of paradoxes and contradictions that, during the last few years, surfaced and turned into major inhibitors for further development. These paradoxes structure this report:

1 The authors are grateful for expert comments by Luis de Brito, Sam Jones, Ricardo Soares de Oliveira, Arne Disch and Inge Tvedten as well as for essential feedback by NUPI and the Ministry of Foreign Affairs. We also thank Anna Gopsill for proof-reading.

2 From the ToR (“The Principal’s description of the Assignment”).

3 DFID (2009). Political Economy Analysis – How To Note. DFID practice paper 2009. London, Department for International Development.

- 1) **Poverty:** The discovery of the country's considerable natural resource endowments did not usher the country into a new epoch of growth, welfare and peace. Instead, poverty has remained stubbornly high.
- 2) **The armed conflict:** After being seen as a success case of peace-making in Africa, the armed conflict between the government and Renamo recommenced in 2013. Despite the current ceasefire, in place since late 2016, there does not yet seem to be a prospect of a permanent solution in place, despite the President of Renamo, Afonso Dhlakama declaring an indefinite ceasefire.⁴
- 3) **Aid crisis:** After four decades of overseas development, through which the Mozambican government had time to test and forge an understanding with the major donor countries, the relationship is now at a deep crisis of mutual lack of confidence.
- 4) **Debt:** How can one explain that after having its foreign debt cancelled under the HIPC debt relief initiative in 2002, in 2016 Mozambique's foreign debt was bigger than its GDP – and therefore practically unsustainable?⁵
- 5) **The party-state:** More than 25 years after adopting a liberal constitutional order – based on the principles of multi-partyism, decentralisation and the separation of state powers – the same party remains in power (alike other countries in the region), with the opposition parties bitterly complaining about Frelimo's concentration of power in the state, in the Presidency and in the capital city.
- 6) **Corruption:** Mozambican leaders, civil society and donors have highlighted the need to combat corruption for at least two decades. Nevertheless, corruption is at the core of the

current political crisis, and every indication suggests that the problem remains enormous and, if anything, it has been worsening during the last decade.

1.2.1. A critical moment for Mozambique

Mozambique is currently plunged into 'a deep political, economic and social crisis', with the country shrouded in 'corruption, nepotism and social exclusion' – Rui Baltazar⁶

This is arguably the most critical phase in the country's history since the elections that eventually consolidated peace in 1994. In July 2017, the political classes of the country – the government, the donors, the opposition, and opinion makers in civil society – were starting to position themselves after the release of the (forensic) audit report by Kroll, the international auditing firm. Paid by the Swedish cooperation (a total of US\$ 4.7 million),⁷ Kroll formally reported to the Mozambican Attorney General (Procuradoria-Geral da República - PGR) and the IMF. For months Kroll had investigated the whereabouts of the money that the three state-owned companies EMATUM, MAM and ProIndicus had borrowed at commercial rates; loans mainly from the two banks Credit Suisse and the Russian VTB, but also involving Mozambican banks. When factoring in a loan to the Ministry of Interior, it amounted to about US\$ 2.2 billion. Due to these loans, Mozambique has defaulted on its sovereign commitments on several occasions since 2016. The scandal had led to the suspension of the IMF support programme, as well as its traditional donors withdrawing general budget support.⁸

4 In an interview titled "As negociações estão lentas" with the respected weekly *Savana* published on May 2017, Dhlakama stated that the process leading up to an agreement would take long and not be finished before the end of the year. *Savana*, 5 May 2017.

5 The public debt that the country has acquired over the last years will in 2017 stand at 109.7 per cent of GDP according to one estimation, making it the highest in Sub Saharan Africa. See <http://clubofmozambique.com/news/mozambiques-public-debt-almost-110-highest-sub-saharan-africa-consultant/> (Last accessed April 17, 2017)

6 Rui Baltazar, recognised as 'one of the founding figures of Mozambican law', was quoted by AllAfrica on 6 May 2016 <http://allafrica.com/stories/201605070232.html> (Last accessed May 22, 2017)

7 *Savana* 30 de Junho de 2017

8 After several delays on May 13, 2017 The Mozambican Attorney General's office stated that it had received the audit report and that it would release the results to the public as soon as possible. At the time of writing it is not possible to know when it will be, and how much of the report that will be public. <http://www.cnbc.com/2017/05/13/reuters-america-mozambique-receives-kroll-audit-into-hidden-debts.html> (Last accessed May 13, 2017.)

On May 13, 2017 the Attorney General's office (Procuradoria-Geral da República - PGR) said that it had received the audit carried out by Kroll, and that it would release the results to the public as soon as possible. It was not, however, until June 24 that the PGR released the summary to the public.⁹ Even the limited information available in the summary was enough to draw conclusions on the severity of the history behind the loans and the how the Mozambican authorities had handled the issue. Kroll concludes about the loans affair:

- US\$ 500 million (a quarter of the total) unaccounted for and destination unexplained.
- US\$ 713 million (more than a third) diverted through over invoicing.
- Some US\$ 200 million (about 10 per cent) spent on commissions paid to banks and other loan brokers.¹⁰
- No proper business plans for the companies. Their managements appear to lack required competences.
- No evidence of delivery for many of the services and goods apparently commissioned.

After the release of the summary, there were extensive debates on the content and its implications – even though the full report, with names, remained secret.

With regard to the political implications of the report, the most conspicuous element is that apparently the Government of Mozambique made no real attempt to collaborate with Kroll in carrying out the independent audit. Throughout its summary, Kroll complains of the lack of access to sources of information that were essential for the conduct of the audit and clarification of the facts surrounding the hidden borrowings. It also states that the accounts were highly unsat-

isfactory and did not conform to even the most rudimentary accounting procedures.¹¹

The lack of collaboration in the provision of information was not exclusive to the companies (EMATUM, ProIndicus, MAM) and the Mozambican banks involved in the transactions, which, obviously, have an interest in hiding the bad practices throughout borrowing process. In addition, the Ministry of Economy and Finance and the State Information and Security Services (SISE), key entities with knowledge about and interests in the transactions and companies in question, also shied away from providing information. Furthermore, persons involved in the transactions were apparently unwilling to share knowledge with the investigators. Those whom Kroll have been able to talk to are anonymised, and names of central actors are not provided. One of the strategies of the obstruction against the audit included that none of the informants mentioned the name of Guebuza. However, in the press some of the names of those involved were identified. Among those are the CEO of the three companies António Carlos do Rosário, the former Minister of Finance Manuel Chang, the present and the previous head of State Intelligence and Security Service (SISE), Lagos Lidimo and Gregorio Leão.¹²

In the debate following the publication of the summary of the report, many perspectives were brought in which testify to the divisions in society about this affair. Former President Guebuza and former Minister of Finance Manuel Chang refused to comment saying that they had not read the report.¹³ President Nyusi declared: “We reiterate that the Government of the Republic of Mozambique will grant all institutional support to the PGR in the implementation of the

9 The Kroll-summary, which is available at <http://bit.ly/Kroll-sum> (last accessed June 30, 2017), was published shortly before finalisation of this report. We have attempted to include some of the implications. In the conclusion to this analysis, we will revert to some thoughts on possible scenarios.

10 The sum has been challenged by Credit Suisse and VTB. See: *Savana*, 30 de Junho de 2017.

11 See for instance about ProIndicus and Ematum, pages 22 and 31, where the auditor uses the same expression: “The invoices provided to Kroll do not provide sufficient detail to gain comfort that the documents accurately reflect the true price of these assets and services, and therefore do not allow accurate accounting records to be maintained by the company.”

12 See: *Savana*. 30 de Junho de 2017.

13 <http://portalmoznews.com/2017/06/assista-ao-video-guebuza-chang-recusam-comentar-relatorio-da-kroll.html> (Last accessed June 30, 2015)

recommendations contained in the independent international audit [on the hidden debts]”.¹⁴ From the press and civil society angry comments followed. For instance, the daily news-sheet *mediafax* ran the editorial headline ‘After all there is material to send people to jail’.¹⁵ More important was the statement from central organisations in civil society that demanded publication of the full report, as well the identity of those involved and the total amount of money. Furthermore, a group of Mozambican Bond Holders, the so-called Global Group of Mozambique Bondholders, called on the Government to revoke the loans and shut down the three companies.¹⁶

By mid-2017, the Kroll report had not yet produced any clear outcome or settlement, as the main actors were trying to work out how to react. Due to its severity, it was certainly impossible for both the Mozambican Government and the international community to ignore its consequences and implications. The IMF was widely expected to spearhead an international reaction. Immediately after the publication, the IMF released a statement welcoming the publication of the summary, while pointing out that information gaps remained – in other words, lack of transparency. It then announced a delegation would visit the country for consultation from July 10 to 19.

Significant change was in the air, but no one had yet committed to alternatives to the tenuous state of affairs that had installed itself at the end of 2016, that is, with the war “on vacation” only, development aid in suspense, accountability in limbo, and debt-relief a long shot away.

1.2.2. The “presource” curse, and the major risk of a resource curse

Substantial natural resources have been discovered in Mozambique in recent years. Most important of all, the vast proven gas reserves in the Rovuma basin off shore the Cabo Delgado province have the potential to transform Mozambique into a global player in Liquefied Natural Gas exports.¹⁷ They are among the largest gas reserves in the world with estimated resources of some 150trn cu ft, potentially making it the third largest exporter of LNG behind Qatar and Australia. A law approved in 2014 regulates the exploration.¹⁸

However, many caveats remain before this potential can be unlocked. A solid stream of revenues from offshore gas (to Mozambique’s treasury) is probably at least a decade away, and the Mozambican Government’s revenue projections are probably unrealistic (see section 4.1.1).

There are clear signs that some of the characteristics of a classic resource curse already have started to play out in the country, and the risk is high that they will worsen when the LNG adventure takes off. From the outset, Mozambique faces the considerable risks of resource and revenue mismanagement. An indication of this is that the Natural Resource Governance Institute (NRGI) ranked Mozambique with a failing score of 37/100 (46th out of 58 countries), and particularly drew attention to poor reporting practices (51st in 58 countries).¹⁹ The country’s public financial management is chronically sub-standard, even before the onset of “mega-revenue”. The risk of more armed conflict comes

14 http://clubofmozambique.com/news/mozambican-president-says-government-will-support-pgr-in-investigating-hidden-debts/?utm_source=The+Mozambican+Investor_&utm_campaign=fb56a925a6-EMAIL_CAMPAIGN_2017_05_25&utm_medium=email&utm_term=0_d3b369a42d-fb56a925a6-206594637 (Last accessed June 30, 2017)

15 “Afinal há mesmo matéria para levar gente à cadeia”, *MediaFax* Terça-feira, 27.06.17.

16 *A Verdade*. Sexta-Feira 30 de Junho de 2017.

17 Mozambique will meet stiff competition from neighbouring Tanzania, which also races to develop an LNG capacity <https://furtherafrica.com/2017/04/19/tanzania-draft-pact-for-mega-gas-export-project-ready-for-review/> (Last accessed May 22, 2017)

18 Lei de Autorização legislativa referente aos projectos de liquefação do Gás Natural das Áreas 1 e 4 da Bacia do Rovuma. <http://www.inp.gov.mz/pt/Políticas-Regime-Legal/Legislação-Regime/Lei-25-2014>. (Last accessed July 04, 2017) For English summary see: <http://www.nortonrosefulbright.com/knowledge/publications/150313> (Last accessed July 04, 2017)

19 See: <http://www.resourcegovernance.org/our-work/country/mozambique> (Last accessed April 17, 2017). Also a full pdf of the country report can be downloaded.)

on top of the risk of economic mishandling. It should be noted that the armed conflict in the country has several causes – political, regional, economic, and that to come to an understanding of these multifarious causes ought to be a priority for proper analysis of the situation in the country.

When a resource curse affects a country, it implies that while the country is rich in natural resources it neglects developing other areas of the economy. A nation with large reserves of oil and gas may focus entirely on exporting those non-renewable resources, rather than developing related elements of the economy such as processing plants and other related industries. It may also solely focus on mega projects, and not emphasise how the wealth earned from the resources may be used to develop the country's productive economy as a whole. It often leads to spiralling investments in non-productive sectors such as a property boom. Many countries fail to make proper use of the wealth because they concentrate on only marketing raw materials, and thus they develop a dependency on the market values of the resources they trade. In summing up his seminal study on the oil curse, Michael L. Ross writes that countries that are rich in petroleum have less democracy, less economic stability, and more frequent civil wars than countries without oil. Ross concludes about 'the irony of oil wealth' is that 'those countries with the greatest economic and social deficits – countries with low incomes, disenfranchised minorities, few opportunities for women, and relatively fragile institutions – are also the most vulnerable to the oil curse. Where it is most needed, oil is least likely to help'.²⁰

There are few examples of African countries with abundant natural resources that have escaped the resource curse. Botswana is often mentioned as an exception.²¹ The reasons seem to be that it has installed a predictable system of regulation of its diamond wealth and insisted on anticorruption policies, such as transparency and accountability in the public sector. The country has established a system of governance/institutions that encourages growth and discourages rent seeking, which reduces productivity.

The explanations for why resource rich countries often suffer from a resource curse vary, but focus around common themes, such as: i) difficulty of achieving a state-society compact, since the state depends more on the resource rents than on taxing the citizenry, ii) the Dutch Disease (appreciation of currency and imports that crowd out local production), iii) unproductive redistributive spending, iv) plenty of means to equip the repressive apparatus of authoritarian leaders, v) plentiful opportunity for personal (corrupt) enrichment for a few, and vi) the needs of the many are neglected.

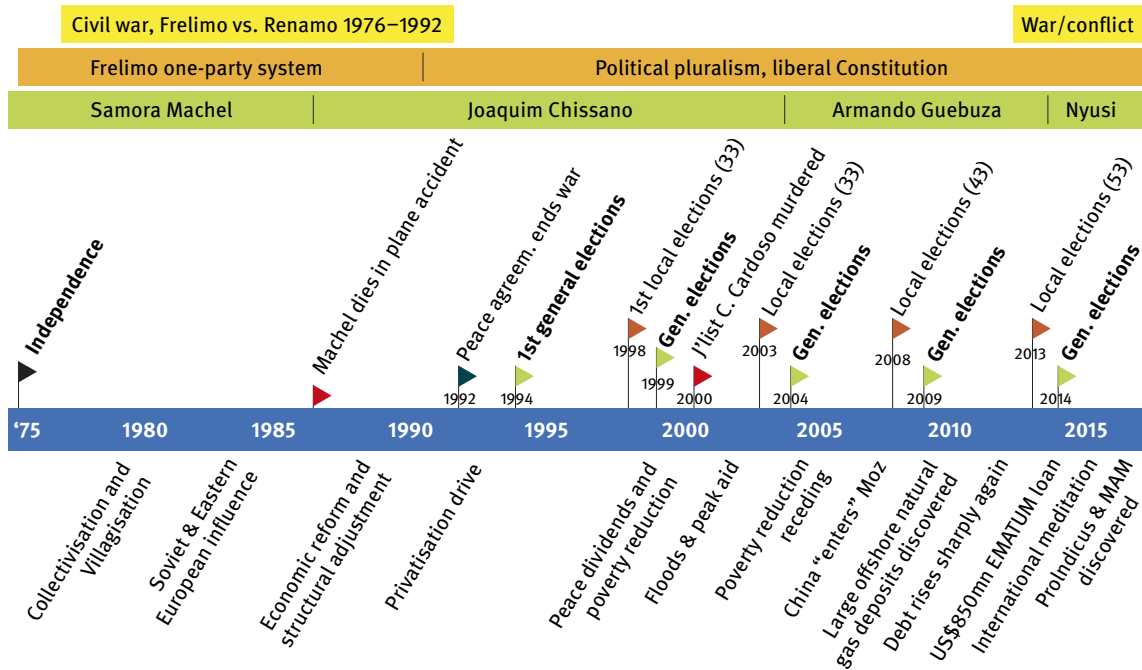
The recent Mozambican experience ticks all the above boxes, though not to the same extent as some other African countries. However, the country definitely suffered a "presource curse" – that is, the economy was derailed not by resource exports, but the mere prospect of them²² – a notion underlying the following analysis.

20 Ross, M. L. (2012). *The oil curse: How petroleum wealth shapes the development of nations*. New Jersey, Princeton University Press. Ch.7.

21 Iimi, A. (2006). *Did Botswana Escape from the Resource Curse?* IMF working paper. Washington, DC, IMF.

22 See: <http://interfaxenergy.com/gasdaily/article/20380-mozambique-and-the-presource-curse>. (Last accessed April 17, 2017) Locked pay site.

Figure 1: Historical timeline



1.3. Recent Norwegian relations with the country

2017 marks the fortieth anniversary of cooperation between Norway and Mozambique. Most of the cooperation over these years has been in the form of aid from Norway to Mozambique. In 2016, Norwegian bilateral assistance stood at NOK 239.4 million. The main areas for assistance have been in humanitarian support after the civil war (mine clearance), energy, fisheries, agriculture, infrastructure, democracy and civil society, assistance to professionalization of state administration, and budget support. The Oil for Development programme has been an important part of the Norwegian assistance during the last decade.

In addition, there has been substantial cooperation between Mozambican and Norwegian NGOs²³ in the areas of social services and culture and education and research – such as the Association for the Blind, trade unions, cooperation

between the University of Oslo and Universidade Eduardo Mondlane in the area of research and education in informatics, media development and community radios, and cultural schools.

In the last decade, there has been increased Norwegian interest in investments in local businesses. One example is cashew-production through the Brynhild group. Green Resources has a forest plantation in Niassa and the company will start to produce pulp in 2018, in addition to poles for electricity and telecommunications infrastructure. Furthermore, NORFUND has an office in Maputo, and since 2007 it has been involved in eleven investments in Mozambican businesses²⁴ – including, among others, the Matanuska banana plantation (now withdrawn), Banco Terra (a bank that targets the agricultural sector), and Socremo, which offers micro-financing loans to SMEs.

NORCONSULT, which has had a presence in the country since the 1980s, has played an impor-

23 In 2014, 14 Norwegian NGOs had projects in Moz. <http://www.norad.no/landsider/afrika/mosambik/> (Last accessed May 22, 2017)

24 <http://www.norfund.no/investments-in-country/category1032.html?country=Mozambique> (Last accessed May 13, 2017)

tant role in the development of the national electricity grid. Support for the development of the national electricity grid has been one of the main priorities of the Norwegians in their cooperation over the years, and many Norwegian consultancy companies as well as public enterprises such as Statkraft have been involved. Further examples of activities in the energy sector are investments through NORFUND, such as in hydropower through Agua Imara – a subsidiary of SNPower, and solar energy in cooperation with Scatec Solar and IFC.

Norwegian companies and Oil for Development (OfD) have been active in Mozambique since the discovery of gas and prospects for oil in the Northern part of the country. Over the years, OfD has provided significant support with the aim of preparing Mozambique for being an oil and gas producer.

Norway has had several roles. It has both sent advisors for legal and policy developments and acted as an interested party in exploration and development of the vast gas finds. Hydro were granted blocks in the first round of developments, but were unable to find sufficient resources to develop this further. Also active from the beginning, Statoil has recently scaled down its activities. On July 3rd 2017, the Ministry of Mineral Resources and Energy and Yara International, signed a memorandum of understanding for the production of fertilisers using natural gas extracted from the Rovuma basin. If it goes ahead, Yara will build a large fertiliser factory, and produce 30-50 megawatts (MW) of power.²⁵

On June 26, 2017 a major Norwegian contract in the area of the exploration of gas was announced. ENI, which is the main operator of the first LNG plant selected Aker Solutions to deliver three umbilicals²⁶ and associated

equipment for the Coral South project offshore Mozambique's first offshore field development. The work scope includes three steel tube umbilicals, totalling more than 19 km (12 miles) in length, which will connect the Coral South floating LNG facility to the field's subsea production system.²⁷ In short, Norwegian companies now have very significant business interests in the successful development of the Mozambican gas resources.

Norwegian trade relations with Mozambique were, however, minimal. The annual import to Norway is approximately 10 million NOK.

Challenges in relation to Norwegian investments in the country are the same as for investors from other countries. In 2017, the country ranked as number 137 of 190 in the World Bank's Doing Business index.²⁸ Mozambique needs to improve its regulatory system to attract more businesses. As it stands now, there exists a bias in favour of mega-projects, but small investments do not enjoy the same advantages while burdensome regulatory procedures, "red-tape" and poor infrastructure undermine the possibilities for smaller businesses. Insecurity and delays facing the development of the market for gas, also contribute to reluctance on the part of potential large Norwegian investors.²⁹

25 At the same time Shell Mozambique and GL (Great Lakes) Africa Energy (UK) were awarded other gas development projects. Shell Mozambique will produce diesel and 50-80 MW of power, and GL Africa Energy will produce 250 MW from gas resources. See *mediaFax*, Terça-feira, 04. 07. 17.

26 An umbilical cable or umbilical is a cable and/or hose, which supplies required consumables to an apparatus. It is named by analogy with an umbilical cord. An umbilical can for example supply air and power to a pressure suit or hydraulic power, electrical power and fibre optics to subsea equipment and divers. (https://en.wikipedia.org/wiki/Umbilical_cable) (Last accessed July 04. 2017)

27 The umbilicals will be manufactured at Aker Solutions' plant in Moss, and are scheduled for delivery at year-end 2019. See <https://furtherafrica.com/tag/aker-solutions/> (Last accessed July 03, 2017)

28 <http://www.doingbusiness.org/data/exploreconomies/mozambique> (Last accessed April 14, 2017)

29 "Investors must factor in widespread corruption, bureaucracy, an underdeveloped financial system, poor infrastructure, and high on-the-ground costs. Surface transportation inside the country is slow and expensive, while bureaucracy, port inefficiencies, and corruption complicate imports. Maritime transport linking the national ports is insignificant. Less than transparent government contracting in the last year suggests more rent-seeking and elite capture of increasing revenues from natural resources and other sources. Local labor law greatly limits hiring foreign workers, even when domestic labor lacks the required skills. These factors continue to hinder business registration, expansion and sustainability." Quoted from: State Dep. (2015). Investment Climate Statement for Mozambique, US Department of State.

2. The stage: actors and structures of political economy

2.1. People, poverty and demography

The National Statistical Institute reports 27,128,530 inhabitants in 2017,³⁰ of which:

- 51.7 per cent are women
- 65 per cent are under 25 years
- Roughly 3 per cent annual population growth.
- Two thirds live in rural areas
- More than half (52 per cent) lives in the four northern provinces, and a quarter in the central and a quarter in the southern provinces (25 and 23 per cent).

These figures bring out some important points. Almost two thirds of Mozambicans were born *after* the end of the civil war between Renamo and Frelimo. Although the cruel memories of the long civil war still structure the political landscape and the party system,³¹ only a minority of Mozambicans have direct recollections of the war. Memories of the war are therefore bound to wane in significance, or be distorted by the interpretations and filtering of generations.

There is also a case of what (Herbst 2000) calls a state “challenged by geography”, with the capital city located in the far south, and the major concentration of the population 1,500 kilometres to the north. As in most Southern African countries, a large number of different ethnic

and linguistic groups make up Mozambique’s population, with more than twenty languages spoken.³² Portuguese is the official language and the principal *lingua franca*, which at least half of the people master fully or at least partially.³³ Crucially, the largest ethno-linguistic group – the Makua, around 7 million people, making up 25 per cent of the population – lives mostly in the far north of the country.

In addition, the country has a degree of urbanisation that is slightly lower than the average of sub-Saharan Africa (at 37 per cent). This high “ruralness” has some crucial political implications because the local governance structures only permit local elections in the urban areas. With the current rate of population growth, nearly half a million people join the work force every year – representing a tremendous opportunity, but also a major challenge if jobs are not created at a corresponding rate.

Mozambique is, unfortunately, commonly associated with poverty and generally low human development. It still ranks 181 out of 188 countries on the UNDP’s Human Development Index, around the same ranks at which it has remained for the last few decades.³⁴ In 2015, Mozambicans had a life expectancy of 55 years

30 See Instituto Nacional de Estatística (www.ine.gov.mz) at “/Demográficas e Indicadores Sociais” and “/Estatísticas e Indicadores Sociais 2014”.

31 Igreja, V. (2008). “Memories as weapons: The politics of peace and silence in post-civil war in Mozambique.” *Journal of Southern African Studies*(34/3), Bertelsen, B. (2016). *Violent becomings. State formation, sociality, and power in Mozambique*. New York & Oxford, Berghahn.

32 The exact number is uncertain as some languages in some estimates are regarded as dialects and in others as separate languages.

33 According to the 2007 census, 10.7 per cent speak Portuguese as a first language, and another 39.7 per cent claim it as their second language. Gonçalves, P. (2012). *Lusofonia em Moçambique: Com ou sem glotofagia? II Congresso Internacional de Linguística histórica. Homenagem a Ataliba Teixeira de Castilho*. São Paulo..

34 UNDP (2016). *2016 Human Development Report*. New York, UNDP.

at birth – fifth lowest in the world. The low rate is partly explained by the legacy of high rates of HIV-infection.

The UNDP statistics tell us that nevertheless, Mozambique has made leaps in human development since 1990 – in fact, of all countries in the world; only Rwanda improved its human development score more. This leap took place from an abysmal situation following the 15 years of civil war. In the following two decades, it out-competed the “HDI-performance” of other Low Human Development countries.

However, the fast improvement slowed down after the peace dividend of the post-war years. In the period 2010-2015, Mozambique’s progress was weaker, and it performed only slightly better than the average of the other forty Low Human Development countries. If the four countries that were most ravaged by devastating wars since 2010 (Syria, Yemen, CAR and South Sudan) were removed from that list, then Mozambique’s performance in the period was below average. As shown in section 3.2.1, these were the years of Mozambique’s record economic growth. These figures therefore provide some support for the popular notion among Mozambicans that the economic growth led to inequality more than improvements for the majority.

Poverty reduction was, for much of the 2000’s, officially the main purpose and objective of public policy in Mozambique, as well as the policy of most of Mozambique’s development partners. Therefore, for its obvious and crucial importance, several attempts at measuring the poverty level became the object of hefty debate,³⁵ in part due to measurement challenges that are inherent to the exercise as well as concerns over the quality of the data.³⁶

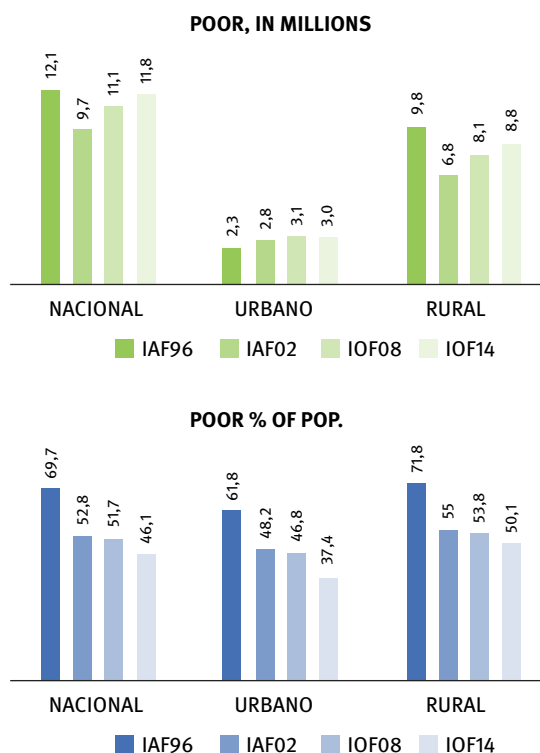
There are four major benchmark measures of aggregate poverty levels, all donor sponsored:

35 See for instance Hanlon, J. (2016). Special report on 4 poverty surveys since 1996. Mozambique news reports & clippings. <http://www.open.ac.uk/technology/mozambique/news-reports-2017>, No. 344, 31 October 2016.

36 Arndt, C., E. S. Jones, et al. (2017). A Review of Consumption Poverty Estimation for Mozambique. Measuring Poverty and Wellbeing in Developing Countries. A. Channing and F. Tarp. Oxford, Oxford University Press: 108- 120.

the household surveys of 1996/97 and 2002/3 (the IAFs), and the household budget surveys of 2008/9 and 2014/15 (the IOFs).³⁷

Figure 2: Poverty in 1996, 2002, 2008 and 2014



Source: MEF, 2016.

As seen in figure 2, poverty remains very high at the aggregate level. Put simply, there were nearly as many poor people in Mozambique in 2015 as there were in 1996. Since the population has grown, the number of poor people declined as a percentage. Overall, the percentage of people below the poverty line fell from nearly 7 out of 10 people to around half the people. The aggregate percentage of poor people fell dramatically between the first two measure points, but only slightly thereafter. These figures also demonstrate that poverty is relatively concentrated in the rural

37 MEF (2016). Pobreza e bem-estar em Moçambique: Quarta avaliação nacional. Inquérito ao orçamento familiar - IOF 2014/15. Direcção de Estudos Económicos e Financeiros. Maputo, Ministério de Economia e Finanças.

areas, and that during the 18 years, poverty has fallen more in the cities than in the rural areas.

The most recent government report on poverty³⁸ reveals two very significant facts. There has been an overall increase in inequality (the Gini coefficient increased from 0.40 to 0.47), which is also obvious in the regional/provincial distribution of poverty. The IOF 2014/15 finds that poverty is concentrated in the Northern provinces, in particular in Zambezia and Nampula. On a multidimensional measure of poverty,³⁹ the differences in the poverty rates of the Northern provinces (68 per cent), centre provinces (64 per cent) and southern provinces (19 per cent) are even starker.

The latest IOF also underscores the commonly held assessment that major improvements to well-being took place in the immediate aftermath of the war, but have been slower more recently. In one authoritative analysis, Arndt & Jones et.al concluded that 'poverty rates reduced dramatically between 1996/7 and 2002/3 with particularly strong decreases in rural areas' and that 'between 2002/3 and 2008/9 poverty at the national level stagnated'.⁴⁰

While the latest poverty analysis (2014/15) indicated some decline, particularly in urban areas, more recent economic development give reason to fear that poverty rates may even be on the rise. In 2015 and 2016, growth rates slowed abruptly. In addition, inflation has accelerated, linked to a severe devaluation of the national currency to around half of what it was in 2015.

Gender issues remain high on the development agenda in Mozambique, reflecting both a political openness to recognise and deal with gender inequalities on the part of the Mozambicans, as well some external pressure from its development partners. However, inequalities remain: While the estimated literacy rate in 2015 for the total population was 58.8 per cent, it was 73.3 and 45.4 per cent for males and females respec-

tively. Literacy also implies knowledge of the official language, which is Portuguese. Mozambique scores low on women's rights and gender equality indicators.⁴¹ There was some progress in political representation, education and health, but the socio-economic position of women remains weak in vital areas such as employment, income and sexual and reproductive rights. Evidently, the changing economic circumstances have resulted in different opportunities for women and men. Tvedten looked for evidence of the much discussed "feminisation of poverty" thesis: that i) women are poorer than men, ii) the incidence of poverty among women is increasing relative to that of men and iii) growing poverty among women is linked to the feminisation of household headship.⁴² He found a mixed picture: In northern and rural areas, there are still many socio-cultural impediments to women improving their life conditions. In the cities in general, and in Maputo in particular, there is increasing evidence that female-headed households were better able to exploit opportunities and on average fare better in terms of poverty reduction than those that are male-headed.

2.2. Economy

For many, Mozambique's economy, which grew at an average of 7 per cent a year for nearly two decades until 2014,⁴³ represented a development success. In addition, the prospects for Mozambique's economy, and the discussions about it, appeared bright. Sometime during the second half of the 2000s there was a gradual realisation that Mozambique is endowed with vast amounts of extractable resources: coal, natural gas, mineral sands, gemstones and tropical timber. In addition, the country has sizeable water resources. It has Africa's second largest hydropower plant, the Cahora Bassa Dam, with an installed capacity of

38 *ibid.*

39 See MEF 2016 for a discussion of "multidimensional" or privation based measures versus consumption based measures of poverty.

40 *Op.cit.*, page 118.

41 UNDP (2016). 2016 Human Development Report. New York, UNDP; and WEF (2016). The Global Gender Gap Report 2015. Davos, World Economic Forum.

42 Tvedten, I. (2011). Mozambique country case study: Gender equality and development. Background papers for World Development Report 2012, World Bank.

43 Castel-Branco, C. N., N. Massingue, et al. (2015). Questions on productive development in Mozambique. Maputo, IESE.

2000 megawatts. Then, in 2010, the discovery of giant reserves of natural gas totalling up to 100 trillion cubic feet off the coast of Cabo Delgado – much more than, for instance, Norway and the third largest in Africa – inspired some optimists to propose that Mozambique stood at the threshold of a breakthrough in development, foreseeing a wealthy future.⁴⁴ Many hailed Mozambique as the showcase of economic growth and development achievements. This “best-scenario optimism” generated by the *expectations* of enormous investments in the production of Liquid Natural Gas – to the tune of US\$ 110 billion, according to the IMF. International companies are also continuing exploration in other coastal areas both on and off shore. These expectations significantly increased the stakes in the political economy game of Mozambique.

A mere glance at the rest of the Mozambican economy and governance should have been enough to ring the alarm bells about an upcoming “resource curse”. The rest of the economy and, as we shall argue, its institutional apparatus, is nowhere near a “breakthrough” to industrialised modernity. Smallholder agriculture remains completely dominant in terms of where Mozambicans employ their labour. Four out of five Mozambicans are engaged in the sector as part of their livelihood – even significant parts of the urban populations – yet agriculture only constitutes a quarter of the GDP. There are few, if any, examples of agro-business or agro-industrial success-stories. Most agriculture in Mozambique still uses very basic agricultural methods and labour productivity in agriculture remains extremely low.⁴⁵

44 See for instance the following report from World Finance from 24 November, 2014 which begins by stating: “After decades of promise, Mozambique is finally entering an era of unprecedented economic growth, spurred on by natural resource development and increased infrastructure delivery.” <http://www.worldfinance.com/infrastructure-investment/government-policy/mozambique-plans-economic-revolution> (Last accessed May 13, 2017)

45 See among others: <http://clubofmozambique.com/news/economist-growth-in-agriculture-will-slow-to-3-5-percent-a-year/> (Last accessed May 13, 2017).

2.2.1. Debt, and the rise and fall of macro-economic optimism

High economic growth has been the principal argument for those who highlighted the developmental successes of Mozambique. As late as May 2014, in her speech to the Africa Rising Conference held in Maputo, IMF head Christine Lagarde pointed to Mozambique’s impressive performance, highlighting its growth and poverty as ‘fruits of years of institution building and sound economic management’.⁴⁶ In this context, the IMF formally permitted Mozambique to obtain new loans on non-concessional terms in their Policy Support Instrument for the periods 2010-2013 and 2013-16 of more than US\$ 1 billion,⁴⁷ but even this ceiling was breached.⁴⁸

Mozambique’s growth was undeniably high in the decade before 2014, and on some of the standard measures of macroeconomics, it performed better than most African countries with low inflation and high foreign direct investment.⁴⁹

The resource endowment propelled the most upbeat projections for Mozambique’s future, as demonstrated in the graphics below. Some argued that Mozambique, hitherto among the world’s poorest countries, stood at the verge of becoming a middle-income country.⁵⁰ We argue that this kind of representation – along with a barrage of other optimistic assessments about the *future* income – changed the perceptions of Mozambique’s political economy, so that the structural limitations that characterise it were ignored.

46 <http://www.imf.org/external/np/speeches/2014/052914.htm> (Last accessed May 22, 2017).

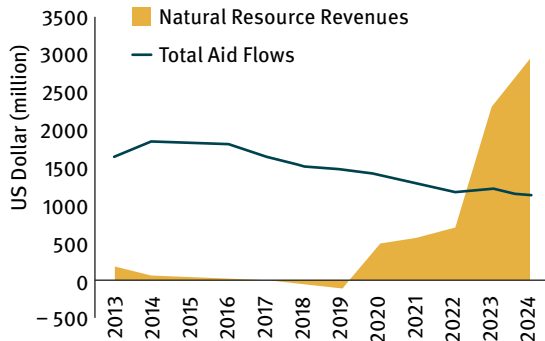
47 <http://www.imf.org/external/pubs/ft/scr/2013/cr13200.pdf> (Last accessed July 2, 2017).

48 <https://www.imf.org/en/News/Articles/2016/11/21/PR16521-IMF-Executive-Board-Considers-Mozambique-Misreporting-Under-the-Policy-Support-Instrument> (Last accessed July 2, 2017).

49 Chivulele, F. M. (2016). *Estrutura da dívida pública em Moçambique e sua relação com as dinâmicas de acumulação. Desafios para Moçambique 2016*. IESE. Maputo, IESE.

50 An example is former president Armand Guebuza who in December 2010 at a meeting in Riyadh in Saudi Arabia declared that he believed that Mozambique could become a middle-income country within the next ten years. <http://allafrica.com/stories/201012061201.html> (Last accessed May 13, 2017)

Figure 3: IMF and others created expectations of huge income from the extractive industries



Source: IMF Resident Representative, September, 2013, 'Mozambique: Aid and Natural Resources'. PowerPoint Presentation at G-19 Retreat, Mozambique.

Lagarde annulled her optimism when, two years later, the IMF suspended its programme due to the loans scandal, and she stated that Mozambique was “clearly concealing corruption”.⁵¹ She referred to the discovery of the three secret loans taken up by the state owned companies – linked to the security services – called EMATUM, MAM and ProIndicus, and a widely held suspicion that part of the borrowed money had ended up in corrupt pockets very close to the current political leadership.⁵² This led to what Swedish ambassador Irina Schoulgin Nyoni called a ‘very big crisis of confidence’⁵³ between the Government of Mozambique and the community of its donor-creditors organised in the G19 group (excluding private and Chinese creditors, for instance), the result of which was the Kroll “forensic” audit of the three companies.

However, severe macro-economic imbalances were now upon Mozambique. The confidence crisis clearly contributed to donors withholding

and withdrawing aid. According to the IMF,⁵⁴ foreign grants plunged from more than US\$ 700 million in 2014, to less than US\$ 200 million in 2016 (the year when the second batch of hidden loans were discovered). At the same time, the FDI also dropped by 40 per cent and external loans disbursements by a full 87 per cent. As an aggravating factor, commodity prices fell so that export revenue declined dramatically between 2014 and 2016. Faced with an increasing current account deficit, Mozambique started to deplete its foreign reserves, while simultaneously drastically cutting imports. The currency lost almost half of its value to the US\$, and inflation started to rise, reaching almost 26.35 at its highest in November 2016. In April 2017, it stood at 21.27 per cent.⁵⁵

These imbalances had been brewing for a while. In 2005, the budget deficits started to increase steadily, and averaged almost 5 per cent of GDP until it reached 11.1 per cent in 2015.⁵⁶ Thus, the state debt, both domestic and foreign, increased abruptly – from a controlled level of 37 per cent of GDP in 2006, to representing an unsustainable 77 per cent in 2015, and was still rising. In February 2017, it stood at 109.7 per cent, according to one source⁵⁷. An aggravating factor was that in 2005, almost all of Mozambique’s public debt was at concessional rates with the IFIs, but by 2015, half of the debt was on commercial terms to commercial banks.⁵⁸ The Mozambican research institute IESE dubbed the years 2005-14 a period of ‘disastrous governance of the treasury and of public assets’.⁵⁹

54 Presentation by Ari Aisen, IMF resident representative, to Donor Coordination Platform, Maputo, 6 April 2017.

55 <http://clubofmozambique.com/news/mozambiques-april-inflation-eases-to-21-27-percent-yy/> (Last accessed May 23, 2017)

56 <http://www.tradingeconomics.com/mozambique/government-budget> (Last accessed May 22, 2017)

57 <http://clubofmozambique.com/news/mozambiques-public-debt-almost-110-highest-sub-saharan-africa-consultant/> (Last accessed April 24, 2017)

58 Castel-Branco, C. N., F. Massarongo, et al. (2016). Mozambique’s Secret Debt: The Impact on the Structure of the Debt and the Economic Consequences. IDEIAS, no.86. Maputo, IESE.

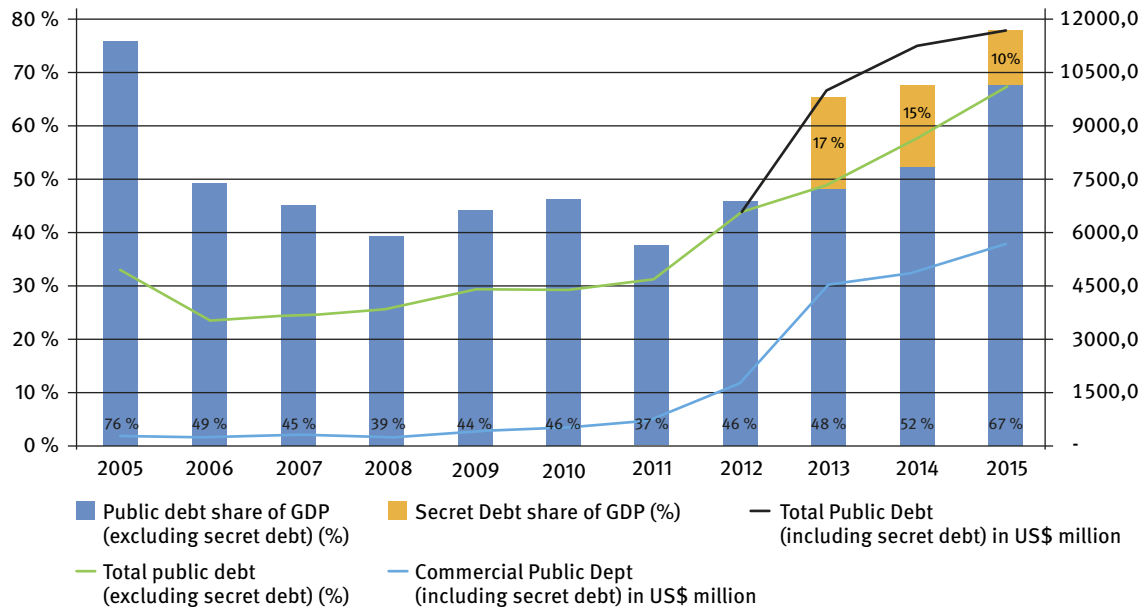
59 Castel-Branco, C. N., F. Massarongo, et al. (2016). Introduction to the public debt problematic: context and immediate questions. IDEIAS, no.85. Maputo, IESE.

51 <http://allafrica.com/stories/201605250221.html> (Last accessed May 22, 2017)

52 See *Africa Confidential*, vol.57 no.10 for details of these allegations <https://www.africa-confidential.com/article/id/11658/Secret-security-debts-devastate-economy> (Last accessed May 22, 2017)

53 In interview in *Savana*, 31 March 2017.

Figure 4: Volume of public debt (million US\$) and public debt share of GDP (in per cent)



Source: IESE 2016, *Ideias*, Boletim Nº 86e

Figure 4, however, shows clearly that, in terms of the public debt, the new hidden loans merely represented the tip of the iceberg. Even before the confidence crisis with its donors, the government started to increase its borrowing in the commercial market at heavy interest rates.

In addition to the now official state debt, the many state owned enterprises (SOEs) are deeply indebted – there are potentially huge problems with hitherto undisclosed liabilities in the many SOEs.⁶⁰ Associated with these challenges, the banking system is struggling, once again, with large portfolios of non- or under-performing debtors. Hence, the central bank, under its new governor Rogério Zandamela, appointed 31 August 2016, took severe steps to “clean up” the banking system at the risk of provoking the ire of powerful figures in society – as has happened in previous attempts at “cleaning up” the banks. In April 2017, Zandamela admitted that four out of the five biggest banks were exposed

to “bad loans” of the MAM, EMATUM and ProIndicus.⁶¹

By 2017, most optimism was gone, as Mozambique defaulted on its foreign debt on three occasions, and the international credit rating bureaus had downgraded Mozambique to the league of the least “credit worthy” in the world.⁶² The IMF now recommends a standard austerity “package” for Mozambique: cutting subsidies, infrastructure investments and selling off state companies that are deeply in the red. However, these are politically sensitive measures. The question is how the macro-economic instability, and the subsequent austerity measures, will affect the “real”⁶³ economy. Domestic debt is also a serious concern, and the government is resorting to

60 Adam Smith International (2017). Mozambique: Fiduciary risk assessment, DFID/Adam Smith International.

61 <http://clubofmozambique.com/news/four-or-five-mozambican-banks-exposed-to-hidden-state-debts/> (Last accessed May 22, 2017)

62 Mozambique’s credit ratings compare to Greece and Venezuela, see <http://www.tradingeconomics.com/mozambique/rating> (Last accessed May 22, 2017)

63 The rather strange terminology of “real” economy is an attempt at pointing to the many different and unreliable ways of reporting on the economy in the Mozambican press and blogosphere.

issuing a growing mountain of treasury bills to plug funding gaps. These now amount to \$1.3 bn., according to the latest data from the central bank.⁶⁴

2.2.2. Mozambique's (mega-) mode of economic development

Abject poverty is visible mostly everywhere in Mozambique, although the cities bear the signs of a growing middle class, such as modern real estate projects and affluent shopping malls. However, this fragile middle class currently struggles due to the high inflation rate, and their reduced buying power due to the falling value of their currency. The section of the working class that works for a minimum wage, or near it, has also seen a relative reduction recently. The minimum wage levels rose for part of the last decade, but this year reverted to the levels before 2006, below US\$60 a month, barely above the poverty line.⁶⁵

Article 103.1 in the Constitution states that 'agriculture is the basis of national development'. Mozambican intellectuals⁶⁶ often point out the glaring contradiction between this constitutional postulate and the weak, inconsistent or erratic investment⁶⁷ in agriculture and rural develop-

ment. Research⁶⁸ has consistently pointed to the failure in raising agricultural productivity, describing the smallholder agricultural sector as rather stagnant.

There is also a large informal urban economy – semi-detached but still interlinked with formal structures but with limited revenue returns – which constitutes one of the main challenges for poverty reduction.⁶⁹ Only around a third of all urban employment can be considered formal employment, and is concentrated in the larger urban centres/public institutions with a very weak manufacturing and services sector.⁷⁰ Tourism is poorly developed and there is a small agro-based manufacturing sector – both with high but still unrealized potential.

The Mozambican government's economic strategy has focused on the country's vast natural resources including hydropower, coal, forestry, fisheries and more recently oil and gas – partly to attract massive inflow of capital from abroad. The tendency has been to concentrate efforts on a small number of so-called mega-projects.⁷¹

64 *Africa Confidential* 28 April, 2017. (op.cit)

65 Hanlon, J. (2017). Minimum wage falls below \$60/month for first time in a decade. Mozambique news reports & clippings, No. 368, 19 April 2017.

66 The point was made by several speakers during the large conference "Mozambique: Which paths to the future?" organised in Beira in March 2017. <http://www.masc.org.mz/pt/noticias/mocambique-que-caminhos-para-o-futuro-C000p0s000>. Some of the most important aspects of the conference are reported in a special supplement of the weekly newspaper *Savana* April 7, 2017.

67 Mosca, J. and M. Abbas (2016). Políticas públicas e agricultura. Políticas públicas e agricultura em Moçambique. J. Mosca. Maputo, Escolar Editora.

68 See for example Hanlon, J. and T. Smart (2014). Chickens and beer: A recipe for agricultural growth in Mozambique. Maputo, Hanlon & Smart., available at <http://bit.ly/chickens-beer>; and Jones, E. S. and F. Tarp (2013). How to promote sustainable jobs in Mozambique. WiderAngle Newsletter, no.29. Copenhagen, UNU-WIDER., available at <https://www.wider.unu.edu/publication/how-promote-sustainable-jobs-mozambique> (Last accessed May 13, 2017).

69 Arndt, C., E. S. Jones, et al. (2015). Mozambique: Off-track or temporarily sidelined?. WIDER Working Paper, no.44. Copenhagen, UNU-WIDER.

70 Jones, S. and F. Tarp (2015). Understanding Mozambique's growth experience through an employment lens. WIDER working paper, no. 109, UNU-WIDER.

71 Massingue, N. (2015). Private investment trends in Mozambique: Questions for reflection. Questions on Productive Development in Mozambique. C. N. Castel-Branco, N. Massingue and C. Muianga. Maputo, IESE.

Table 1: 2011-13 exports, concentrated on unmanufactured items from the mega-projects

| 4-digit heading of Harmonized System 2002 | Value (million US\$) | | |
|--|----------------------|--------|--------|
| | 2011 | 2012 | 2013 |
| All Commodities | 3604.1 | 3469.9 | 4023.7 |
| Aluminium bars, rods and profiles | 1348.7 | 1088.6 | 1063.2 |
| Coke and semi-coke of coal, of lignite or of peat | 20.7 | 435.2 | 526.6 |
| Petroleum gases and other gaseous hydrocarbons | 186.7 | 248.2 | 445.4 |
| Electrical energy | 297.2 | 233.4 | 275.5 |
| Unmanufactured tobacco; tobacco refuse | 178.4 | 227.9 | 257.3 |
| Titanium ores and concentrates | 122.0 | 211.5 | 126.6 |
| Cane or beet sugar and pure sucrose, in solid form | 87.5 | 146.1 | 185.7 |
| Unwrought aluminium | 276.1 | | |
| Petroleum oils, other than crude | 72.2 | 47.5 | 97.3 |
| Bananas, including plantains | 168.8 | 23.8 | 22.1 |

Source: UN Comtrade and UN ServiceTrade

The 10 largest export items accounted for three quarters of all exports in 2013. Due to the giant Mozal aluminium smelter outside Maputo, aluminium (manufactured using imported bauxite) has remained the largest export commodity (25 per cent), followed by coal from Tete and natural gas from the on-shore fields of Inhambane province. In total, natural resource extraction accounted for 30 per cent of exports. Electrical power from Cahora Bassa also remained an important item, but accounted for only 7 per cent of exports (Cahora Bassa is operated by Hidroeléctrica de Cahora Bassa, an independent power producer). Exports from agriculture, what 80 per cent of the population works with, remained at 11 per cent of the exports.

The energy sector promises a significant potential, but further development will require large injections of capital and expertise from abroad. In addition to the present and future investments in gas, there are developments in other forms of energy. Mozambique is already a net exporter of electricity to the South African Development Community (SADC) countries via the Southern African Power Pool (SAPP), but it also has vast potential resources for hydro-power above and beyond Cahora Bassa. The total potential for hydroelectric generation is 12,500

MW. In addition, there are five plants operated by the privatised national utility, Electricidade de Moçambique (EDM).⁷² Solar energy, such as the above mentioned Scatec Solar project in Mocuba,⁷³ also represents the renewable energy potential.

This goes to show that Mozambique's recent mode of development has, much like it always did, relied on external capital and foreign companies, from which the local elite has extracted rents. As illustrated in the macro-figures presented above, this mode has produced little outcome in terms of "trickle down", but high growth figures and concentration of wealth.

The transport sector demonstrates this. Since colonialism, the national railway system has been geared towards transporting raw materials out of the country, and to servicing the neighbouring countries' needs. Hence, the national railway company (CFM) always focussed on what the

72 <https://www.hydropower.org/country-profiles/mozambique> (Last accessed July 04, 2017)

73 See: <http://clubofmozambique.com/news/eaif-backs-us76-million-40mw-solar-farm-in-mocuba-mozambique/> (Last accessed July 04, 2017)

capital-intensive mega-projects in the extractive sector can offer, such as the newly established railway from the Tete coalmines to the Nacala port. It has even excluded transport for local needs along the line. CFM rarely prioritised small-scale transport of people and products that are important for local economic trade and production.⁷⁴ It is widely assumed that ground transport is shared by Frelimo elite owners – most prominently by the companies of former president Guebuza’s family, but it also former and current transport ministers.⁷⁵

The overall point we want to stress in this section is that despite staggering economic growth during the last two decades, the outcome was far less inclusive and was thus not a broad-based growth. Agro-industrial farming and mineral extraction did create a (relatively small) number of jobs for locals, but conflict around land use and forced displacements contradicted these advantages.⁷⁶ There was a significant expansion in financial services, but access to credit and other financial services remain at a very low level for most Mozambicans, even for sub-Saharan Africa standards, were it not for the high financial inclusion of Maputo.⁷⁷

High growth involved a historic construction boom after 2005, but most of its proceeds went to foreign construction companies (Portuguese, Brazilian, Italian, South African and Chinese). Significant parts of the new infrastructure were of arguable or dubious use-value to the country, such as the new international airport in Nacala

(where Brazilian construction company Odebrecht is accused of bribing Mozambican officials), the Maputo-Katembe bridge and the giant new Central Bank building – altogether costing more than a billion dollars.

The construction of the new headquarters of the National Bank, Banco de Moçambique, cost at least US\$ 315 million – and stands as one of the most revealing examples of the priorities of the government and the current contradictions of the economy. The new building is equal to the cost of building four central hospitals or eleven thousand classrooms.⁷⁸ At the opening ceremony in Maputo on July 3rd 2017, President Nyusi added to the irony: “It is important to manage the state’s financial operations in the current scenario of foreign aid inflows and it is also necessary to consider the uncertainty over the resumption of the IMF program as a major challenge.”⁷⁹

2.2.3. Corruption and the illicit economy

In the 2016 version of Transparency International’s Corruption Perception Index – that amalgamates all other major rankings – Mozambique ranked 142 out of the 176 countries, which is slightly below the median among sub-Saharan African countries, better than Zimbabwe and Angola, but significantly worse than Malawi and Zambia. Importantly, Mozambique’s rank fell dramatically from 2015 to 2016, reflecting a commonly held perception that corruption has increased. According to the latest version of Afrobarometer,⁸⁰ 62 per cent of Mozambicans think that some, most, or all of the government officials are involved in corruption, and 69 per cent think the same of the police.

The destructive costs of corruption in Mozambique are probably enormous. A joint publication by the Mozambican Centre for Public Integrity (CIP) and the Chr. Michelsen

74 Perez-Niño, H. (2015). The road ahead: The development and prospects of the road freight sector in Mozambique - a case study on the Beira corridor. questions on productive development in Mozambique. C. N. Castel-Branco, N. Massingue and C. Muianga. Maputo, IESE.

75 <http://zitamar.com/mozambique-transport-minister-nothing-hide-alleged-corruption-cases/> (Last accessed May 22, 2017)

76 See among others Chichava, S. (2017). Resisting South-South Cooperation? Mozambican Civil Society and Brazilian Agricultural Technical Cooperation. South-South Cooperation Beyond the Myths. Rising Donors, New Aid Practices? I. Bergamaschi, P. Moore and A. B. Tickner. London, Palgrave Macmillan.

77 Simone, F. F. and Y. Xiao (2014). Financial Inclusion in Mozambique. Mozambique rising - building a new tomorrow. IMF. Washington D.C., IMF Africa Department.

78 @Verdade 04 de Julho de 2017.

79 <http://clubofmozambique.com/news/president-nyusi-says-uncertainty-on-imf-resuming-aid-is-major-challenge-for-mozambique/> (Last accessed July 04, 2017)

80 <http://afrobarometer.org/publications/ad132-attitudes-toward-sharing-of-resource-revenues-in-mozambique> (Last accessed May 22, 2017)

Institute made a concerted effort at estimating the costs of corruption, through a series of case studies of revealed corruption. Its most conservative estimate put the *annual* costs of corruption to US\$ 500 million, and the worst case scenario put the annual cost at US\$ 4.9 billion – which is nearly equal to the size of the state budget. Even the most conservative estimate is a huge sum for the Mozambican economy, representing almost as much as its health budget in 2015. CIP explains the costs of corruption in terms of the effects on worsening public services, crowding out of small local companies, dissuasion of serious international companies to the benefit of unscrupulous ones, and the overall erosion of the country's reputation.

In addition to the costs of corruption, an unknown part of the Mozambican economy deals with illicit extraction and smuggling activities, such as trafficking in narcotics and endangered species⁸¹ of plants and animals. Wikileaks cables show US officials purportedly naming government figures (or Frelimo associates) as kingpins in a narco-smuggling network, and Interpol believes Mozambique to be a hub in international drug smuggling.⁸² The Public Attorney General of Mozambique stated in April 2017 that the country lost US\$29 million in 2016 due to the laundering of the proceeds of criminal activity such as smuggling and corruption.⁸³

Africa Monitor recently reported that there are currently serious conflicts within the Mozambican tax authority (MTA), where the previous MTA director is pitted against the current due to a recent anti-smuggling campaign that threatens the interests of smuggling rings with high connections in the ruling party.⁸⁴ Such rumours

are persistent,⁸⁵ and the figures of the “nomenclatura” accused of being involved in this illicit economy seem to criss-cross the various aisles or “factions” of Frelimo (see also 4.2.2). One of the most important findings of international corruption research is that when the same actors are involved in both the political and the economic sphere it is a blueprint for corruption and economic inequality.⁸⁶ This is obviously the case in Mozambique.

Finally, there is increasing violence of both criminal and political nature in the country, as reported by the Procurador Geral to the Parliament.⁸⁷ This involves assassinations and attacks on political critics, frequent kidnappings – but also a constant stream of news reports about petty crime. The “Mozambique 2017 Crime & Safety Report”⁸⁸ published by The Overseas Security Advisory Council reported a recent significant increase in cases of kidnappings, and that:

If the economic downturn persists, the level of violent crime will likely rise. Porous borders, endemic poverty, and proximity to South African markets make Mozambique vulnerable to organized criminal elements. Narco-trafficking, human smuggling, and trade in illicit/endangered animal products represents a growing threat to stability and security in Mozambique and the region.⁸⁹

The Afrobarometer survey published on June 23, 2017,⁹⁰ brings us a glimpse of the perceptions of insecurity, and the attitude of Mozambicans to crime:

81 On Rhino horn smuggling, <http://clubofmozambique.com/news/from-mozambique-via-qatar-malaysia-seizes-3-1-million-worth-of-rhino-horns-at-airport/> (Last accessed May 22, 2017)

82 <http://af.reuters.com/article/topNews/idAFJ0E-6B906U20101210> (Last accessed May 22, 2017)

83 <http://clubofmozambique.com/news/mozambique-loses-millions-of-dollars-to-money-laundering/> (Last accessed May 22, 2017)

84 AM Intelligence (2017). “Moçambique: Mudança no Ministério das Finanças.” *Africa Monitor*(1093).

85 An email dated 18 April 2017 and apparently written by staff in the Tax Authority decries gross and systematic corruption organised from the top of the institution – pitting the old and new leadership in a factional fight. The email circulated between donor/diplomatic staff in the following days.

86 See among others: Johnston, M. (2005). *Syndromes of corruption. Wealth, power, and democracy*. Cambridge, Cambridge University Press.

87 <https://www.voaportugues.com/a/pgr-crimes-politicos-mozambique/3386770.html> (Last accessed July 05, 2017)

88 <https://www.osac.gov/pages/ContentReportDetails.aspx?cid=21453> (Last accessed July 05, 2017)

89 Ibid.

90 <http://www.afrobarometer.org/publications/ad154-crime-and-insecurity-remain-near-top-south-africans-agenda> (Last accessed July 04, 2017)

- 49 per cent felt insecure walking in their own neighbourhood.
- 37 per cent feared crime in their home.
- 49 per cent felt that people are treated unequally under the law.
- 41 per cent thought that officials who committed crimes went unpunished.
- 37 per cent of ordinary people who committed crimes went unpunished

Roughly half the people (47%) thought that the government performed badly or fairly badly in reducing crime, while slightly more (53%) thought the opposite. According to surveys, the police force is generally regarded as corrupt and in cahoots with criminal elements. Partly as a consequence, there have been waves of lynching and mob “justice” around the country.

2.3. International actors

2.3.1. Donors and foreign development assistance

Official Development Assistance (ODA) – aid, for short – has played an important part in the economic development of Mozambique, representing an average of around 45 per cent of the state budget/government expenditure since independence in 1975.⁹¹ In 2014, the country received 2,103 million US\$ in foreign aid, two-thirds of which was channelled through the state – again emphasising the importance of the state in the economy. However, tax revenue as a share of GDP increased steadily from 14 to 23 per cent from 2007-2013 and net aid declined from 19 to 12 per cent between 2003 and 2015 (relatively less aid than Malawi, but still nearly three times as much as neighbouring Zambia and Tanzania).⁹² These are both indicators that the country is standing slightly more on its own feet,

but it is still very dependent on foreign aid and its donors.⁹³ Mozambique was the eighth largest recipient of aid in Africa in 2015.⁹⁴

Aid has, since independence, passed through a series of phases; each dominated by its own paradigm rooted in changing ideas about the role of the state and consequently the Frelimo government.⁹⁵ From its beginning following independence in 1975, the aid paradigm in Mozambique was dominated by project support with a heavy presence of external aid personnel. From the late 1980’s, the structural adjustments programmes (SAPs) dominated the agenda, though many aspects soon proved to be counter-productive.⁹⁶ From the early 2000’s, a stronger emphasis on recipient responsibilities and systemic interventions in the form of support to institutional development overtook the SAPs – culminating with Budget Support. However, from around 2010, this paradigm also started losing credibility as issues of limited donor control, poor governance and the absence of poverty reduction came to the fore. Hence, there is currently no discernible paradigm underlying donor activity – making coordination among donors even more difficult than a decade ago.

When put together, there is an enormous scope of donor activities, as is their putative ambitions to influence, fix, or shape – depending on their respective theories of change – the Mozambican state institutional landscape, its capabilities, even its culture and ethos.⁹⁷ As an example, a recent overview of donor interventions in the field of

91 Arndt, C., E. S. Jones, et al. (2015). Mozambique: Off-track or temporarily sidelined?. WIDER Working Paper, no.44. Copenhagen, UNU-WIDER.

92 Fjeldstad, O.-H. and K. K. Heggstad (2011). The tax systems in Mozambique, Tanzania and Zambia: Capacity and constraints. CMI Report, 2011:3. Bergen, Chr. Michelsen Institute. And the World Bank at <http://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS?locations=MZ&view=chart> (Last accessed May 22, 2017)

93 The development partners, bilateral and multilateral, contributing with financial support are commonly referred to collectively as “donors” – even when these are also major loan-providers and creditors.

94 The United States was by far the biggest donor in the period 2010-2014, followed by the World Bank and the IMF, the EU, UK, Portugal and Sweden – Norway being the 12th biggest donor. The overall ODA to Mozambique between 2010 and 2014 has varied between a total annual disbursement of US\$ 1.3 billion to US\$ 1.7 billion. <http://www.oecd.org/dac/stats/aid-at-a-glance.htm> (Last accessed April 17, 2017)

95 Tvedten, I. and A. Orre (2016). Country evaluation brief - Mozambique. NORAD country evaluation briefs, no. 8. Oslo, NORAD.

96 Hanlon, J. (1996). Peace without profit: how the IMF blocks rebuilding in Mozambique. Oxford, James Currey.

97 See also Tvedten, I and A. Orre (2016).

public financial management (PFM)⁹⁸ reveals that in the period 2014-2016 donors spent a total US\$132 million. Around 20 donor organisations supported more than 20 Mozambican ministries and institutions, and more than 100 projects. Nevertheless, the arrows for PFM and other governance indicators are pointing in the direction of worse performance (as mentioned above and in section 3.4.3).

There are currently important discussions around the effectiveness of aid to Mozambique with regard to development and poverty reduction. Arndt et al.⁹⁹ argue that aid has made an ‘unambiguous positive contribution in the conflict, post-conflict and reconstruction period’ and has been important for economic growth, even though the authors also acknowledge that the large influx of aid has tended to tilt the government’s attention in the direction of donors rather than towards the population. Niño and LeBillon¹⁰⁰ argue that this has contributed to a weakening of government structures and accountability mechanisms.

2.3.2. Mozambique, its neighbourhood and the emerging powers

Mozambique has friendly relations and close cooperation with surrounding states – in particular through the Southern African Development Community (SADC) and the African Union (AU).

South Africa is, by far, Mozambique’s most important trading partner. The annual trade between the two countries amounts to approximately US\$3 billion,¹⁰¹ and it is very much in South Africa’s favour. Furthermore, South African

companies have invested heavily in Mozambique. The investment involves all areas from tourism, shopping centres, breweries, mega industrial projects (Mozal), gas and oil (SASOL).¹⁰²

As of June 2015, China was considered the country’s main creditor, having lent Mozambique an estimated US\$ 886 million.¹⁰³ Most of this credit, conceded with generous interest rates, was directed to cooperation in the construction of infrastructure.¹⁰⁴ More than one hundred Chinese companies operate in the country in diverse areas such as energy, agriculture, fishing, real estate, building materials, tourism, buses, telecommunications, infrastructure and trade.¹⁰⁵

Between 2005 and 2015, India invested about US\$1.6 billion in Mozambique, compared to China’s US\$6 billion. Most of this investment was channelled to coal and mineral resources.¹⁰⁶ Japanese and Brazilian investors, sometimes in partnership, have also been active in Mozambique during the last decade. Japanese interests have been strong in agriculture (the Prosavana project together with Brazilian interests), in construction (Nacala port and railway to Malawi), coal (Mitsui in cooperation with Brazilian Vale), and in gas. The Japanese

98 The overview was circulated as an excel file among donors under the title “MOZAMBIQUE - MAPPING OF Support to PFM reforms - 2017 Update”.

99 Arndt, C., E. S. Jones, et al. (2009). Aid and Growth. Have We Come Full Circle? Discussion Paper No. 2009/05. Helsinki, UNU-WIDER.

100 Niño, H. P. and P. LeBillon (2013). Foreign Aid, Resource Rents and Institution Building in Mozambique and Angola. WIDER Working Paper No. 2013/102. Helsinki, United Nations University. World Institute for development Economics Research.

101 <http://allafrica.com/stories/201703150674.html> (Last accessed April 11, 2017)

102 Castel-Branco, C. N. (2015). Business and Productive Capacity Development in Economic Growth and Industrialisation. Questions on Productive Development in Mozambique. C. N. Castel-Branco, N. Massingue and C. Muianga. Maputo, IESE.

103 <http://www.macauhub.com.mo/pt/2015/07/27/financiamento-da-china-a-mocambique-aumentou-160-em-2-anos/> (Last accessed April 11, 2017).

104 Chinese firms build prestigious buildings of many kinds, both public and private. We find among them the Ministry of Foreign Affairs, the renovation and extension of *Assembleia da República* (The Parliament), the Presidential Palace, The Palace of Justice, The Central Office for Combat against Corruption, the Maputo International Airport, Zimpeto National Stadium, the new Maputo Ring Road, and a 666 meters bridge over the Maputo Bay. There are also plans for an investment of US\$1 billion in a new port in Maputo. Most of these have been financed either as purely commercial enterprises through loans from the Exim Bank, or in the form of grants from the aid budget. <http://www.macauhub.com.mo/en/2016/08/19/mozambique-and-china-a-fast-friendship-into-the-future/> (last accessed April 11, 2017)

105 <http://macauhub.com.mo/2017/03/17/chinese-investment-in-mozambique-is-close-to-us6-billion/> (Last accessed April 11, 2017)

106 <http://clubofmozambique.com/news/government-wants-to-attract-indian-investment-in-mozambique-agriculture/> (Last accessed April 11, 2017)

company Mitsui expects to reach a final decision on a huge LNG project in the first half of 2018. The Brazilian construction giant Odebrecht has captured many construction contracts in Mozambique, and as in many other countries around the world, it has been involved in large-scale bribery scandals.¹⁰⁷ The Brazilian airplane-maker Embraer also stands accused of bribing government officials into procuring Embraer aircraft.¹⁰⁸

Clearly, some “emerging powers” arriving on the Mozambican scene were attracted by the new expectation of increased spending of rents from the extractive industries. Many may have bribed their way into a role on the Mozambican market, but so have actors from the industrially developed parts of the world. It is therefore not the inherent characteristics of investors from emerging markets that changed the game. Rather, with more players on the scene, there were more *opportunities* to finance public works and more opportunities for corrupt officials to seek kickbacks.

2.4. Politics and the state institutions

2.4.1. Elections and parties

Frelimo has retained their grip on power since independence in 1975 – first at the helm of a one-party state and then, since 1994, it has won all presidential and legislative elections under a multiparty system. A crucial fact to grasp about the current Mozambican political system is that the presidential elections matter most to the structuring of power. Put bluntly, the winner of the presidential elections “takes it all”. This point is often lost on observers of Mozambique, since it operates a proportional representation system for the legislative elections, giving opposition parties a sizeable part of the representatives in the National Assembly (*Assembleia da República*). However, power is not in the legislature, but rather is concentrated in the Executive with the President of

the Republic at the apex. As long as Frelimo wins the Presidency, they retain control of everything. There is one important reservation to the above: If, for instance, Frelimo were to lose their absolute majority in the National Assembly, the latter could have a chance to start checking executive power more effectively.

Frelimo’s dominance of the political system would have been near absolute were it not for the municipal elections that rendered Renamo and the MDM a chance to wield executive power in some cities and towns after the second round of municipal elections in 2003.

Figure 5

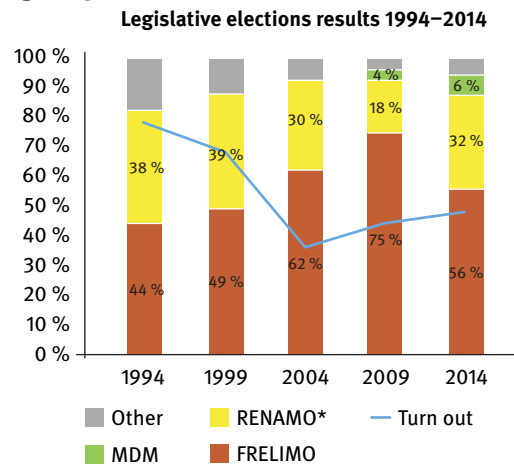
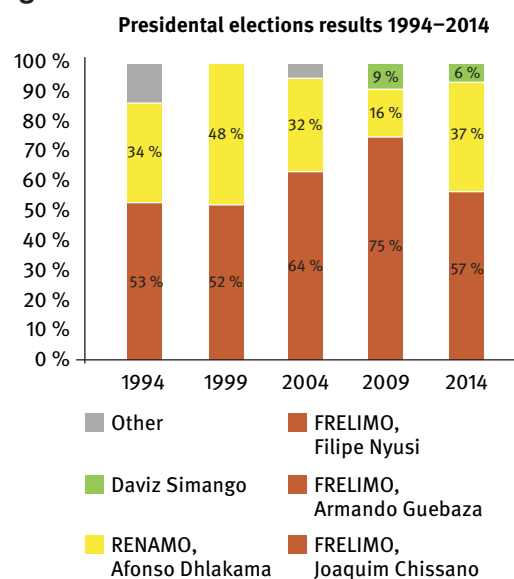


Figure 6



107 <http://www.verdade.co.mz/tema-de-fundo/35-the-made-fundo/60605-odebrecht-admite-ter-pago-900-mil-dolares-em-subornos-a-funcionarios-do-governo-de-mocambique-durante-mandato-de-guebuza-> (Last accessed May 22, 2017)

108 <http://www.dw.com/pt-002/lam-e-odebrecht-mo%C3%A7ambique-investiga-alegados-subornos/a-37363546> (Last accessed May 22, 2017)

The graphics illustrate Frelimo's electoral dominance, but also Renamo's persistent ability to mobilise votes. Perhaps the most notable result was the presidential elections of 1999, when Afonso Dhlakama won nearly half of the votes. Many observers hold that Renamo president Dhlakama won the elections in 1999, as many anomalies cast doubts about the results.¹⁰⁹ Electoral participation (turn out) has decreased dramatically since the second general elections, but it seems to have settled at around 40 per cent. Notably, voter abstention varies tremendously. In some of Renamo's most influential areas, like in Nampula and Zambézia, abstention has reached 80 per cent. This means there is a great potential for surprises and instability after the next election results. This is also demonstrated by an Afrobarometer survey from April 2017, which concluded that Mozambicans are critical of the quality of their elections: Only about half (52%) thought that their most recent national election in 2014 was free and fair. Fewer than half (45%) of Mozambicans prefer democracy over any other system – the second-lowest among all 36 African countries surveyed in 2014/2015. Only 42 per cent believe that elections ensure that the National Assembly reflects the views of citizens.¹¹⁰ These figures cast serious doubt about the legitimacy of the current political or electoral system.

The origins of the political parties also matter to the logics of the political economy. Frelimo originated as the liberation movement, led by urban intellectuals well versed in the Portuguese language, many with Christian mission school education and with strong ties to the left-leaning sections of the liberation movements in Africa. After independence, Frelimo installed itself as the party of the state, and guaranteed jobs for tens of thousands of its members in the state and public sector (see section 4.2.3). Frelimo's historical leadership have strong roots in the ethnic groups

of the southern provinces (Shangan, Ronga) and in the North (Makonde). The heartland of these groups is also where Frelimo has seen the strongest electoral results. By contrast, Renamo early on managed to capitalise on resentment against a perceived discrimination of people from the central and central-northern provinces. That is also where it was militarily strongest during the civil war, and where it has obtained the highest electoral backing in post-war elections.

However, a third political force has recently given both Frelimo and Renamo competition. In March 2009, Beira's popular mayor Daviz Simango – elected for Renamo – broke with Dhlakama and formed his own party, named the Mozambique Democratic Movement, MDM. The MDM has since been recognised as the country's third party force, and quickly managed to present itself as an alternative to the two old arch-enemies Frelimo and Renamo. At least initially, they appealed to a constituency of youth, and to educated and urban-based citizens – and it has also met with considerable attention and goodwill among Mozambique's international partners. As it participated in the municipal (local) elections in 2013, it managed to secure power in the large cities of Beira, Quelimane and Nampula. Daviz Simango, the party president, and his brother Lutero, an MDM member of the National Assembly, are sons of a prominent Beira-based nationalist leader in Frelimo Uria Simango who was executed at some undetermined date during 1977-1980 in internal faction fighting. Simango's wife, Celina Simango, was also executed some time after 1981.¹¹¹ MDM's origins are closely linked with the politics of Beira – historically the second largest city.¹¹² The party has maintained its urban focus and is struggling to break into the populous countryside, whose votes have hitherto been shared between Frelimo and Renamo. However, MDM has managed to establish an independent voice and position in Parliament, critical of both the two big parties.

109 Brito, L. d. (2016). *Intituições políticas e unidade nacional. Desafios para Moçambique 2016*. IESE. Maputo, IESE.

110 See: <http://www.afrobarometer.org/publications/ad139-no-confidence-vote-mozambicans-still-vote-faith-democracy-slipping> (Last accessed May 23, 2017)

111 See Ncomo, B. L. (2003). *Uria Simango: um homem, uma causa*. Maputo, Edições Novafrica.

112 Chichava, S. (2011). "MDM: a new political force in Mozambique?" <https://www.cmi.no/file/?1020>.

As in most countries, ethnic and regional identity – with corollary perceptions of favouritism and discrimination – can be mobilised as political capital. Thus, politicians in all parties regularly allude to – but not much more – the politics of ethnic identity. Yet, just as much as it in some circumstances can mobilise voters and provide secret bonding and trust between politicians, accusations about tribalism (ethnic favouritism) just as frequently discourages politicians to play the “ethnic card”. Since the days of Samora Machel, who vowed to “kill the tribe to build the nation”, there has been a strong ethos against overtly using ethnicity. In addition, with no numerically dominant ethnic group, and the current electoral system strongly encouraging the formation of a party or coalition that can maintain or outcompete Frelimo’s party-state dominance, all ethnic exclusivism is likely to lead to electoral failure. Perhaps therefore, rather than playing on ethnicity, Renamo has tried to appeal to regional grievances, which would appeal to more ethnic groups in the centre and north. The parties also seek to achieve some ethnic variety and balance on its electoral tickets.

2.4.2. Executive power and the public sector

Mozambique is decidedly a presidential system of government.¹¹³ The President of the Republic is simultaneously head of state, head of government and commander-in-chief. He appoints and dismisses: the provincial governors, the Prime-Minister and other members of the Government (the ministers), the Governor of the Central Bank, rectors of the state universities, secretaries of state, the ambassadors of the foreign service, the Attorney General, as well as all the top brass in the armed forces, the police and the security forces. He/she also appoints the presidents of the Supreme Court, the Constitutional Council and the *Tribunal Administrativo* (auditor general). He can also create and dismantle ministries, and veto laws from the Assembly of the Republic (the parliament). The heads of all branches of the Exec-

utive – both central and local organs of the state – as well as significant parts of the Judiciary therefore depend directly on the President. In short, most levers of power are in the President’s hands, although the various presidents have delegated to various degrees. In practice, the Prime Minister functions as a sort of assistant for the President.

A key concept is The Local Organs of the State (*Orgãos locais do Estado*), which consist of the provincial governments, the district governments, and the administrative structures at the administrative post and locality levels – altogether a sizeable bureaucracy that provides tens of thousands of jobs to the party that runs the machine, whose importance is discussed in section 4.2.1.

2.4.3. Formal checks on the executive

The legislature – the Assembly of the Republic, or National Assembly – makes the laws and has potentially wide responsibilities in overseeing the executive branch (the Government). In practice, however, the ability of the National Assembly to do this depends on the will of Frelimo – as hitherto Frelimo has had a more than 50 per cent majority in the National Assembly. Since the party always maintains its ranks in order the National Assembly very seldom puts pressure on the President. Nonetheless, the legislature drafts and/or changes laws of importance. On the other hand, it is less important as a check on the executive’s other affairs, such as economic management and security sector.

Some formal checks on the executive remain in place with regard to justice, human rights and anti-corruption: The National Assembly also appoints the Citizen Ombudsman (*Provedor de Justiça*), but it remains a weak institution with few real powers. Both the National Assembly and the Tribunal Administrativo (auditor general) can inspect the national accounts, and the Central office for the Combat against Corruption (GCCC) can theoretically hold government officials accountable, although immunity rules for politicians are impediments to accountability.

In reality, three factors severely restrict the check on the executive: Firstly, a severe lack of financial

113 See the Constitution of Mozambique, Chapter VI.

Table 2: PFM risk rating, according to Adam Smith International.

| PFM Indicator | Risk rating and change from 2011 FRA | Trajectory of risk |
|--|--|--------------------|
| Budget Credibility | Deterioration from Moderate to Substantial | ↘ |
| Comprehensiveness and Transparency | Deterioration from Moderate to Substantial | ↘ |
| Policy-Based Budgeting | Deterioration from Moderate to Substantial | ↘ |
| Predictability and Control in Budget Expenditure | Deterioration from Moderate to Substantial | ↘ |
| Accounting recording and reporting | Remains Moderate | → |
| External scrutiny and audit | Deterioration from Moderate to Substantial | ↘ |

Source: Adam Smith International (2017)

and human resources makes it very difficult for the legislative branch and judiciary to stand up to the Government. Secondly, those with the prerogative to check the President and his executive depend directly on the President for appointment. The third restriction is the dominance of the Frelimo party and its tendency to protect its President and the Executive.¹¹⁴ The result is that there are still enormous difficulties of transparency and accountability in the Public Financial Management system – despite two decades of donor financed technical aid in the sector.¹¹⁵

A recent DFID report on fiduciary risk in Mozambique¹¹⁶ finds that fiduciary risk in Mozambique is ‘substantial’, that there is a ‘high risk’ of corruption, and that government commitment to reform is only ‘partly credible’. The overall finding is that public financial management performance declined since 2011 (see table above).

Although some officials have been convicted or administratively sanctioned for corruption, these are usually “small fish”. Siba-Siba Macuaca’s murder case¹¹⁷ was never brought to court.

The real test for anti-corruption in Mozambique is the aftermath of the Kroll report and other high profile corruption cases, such as the Odebrecht and Embraer. Will the government commit to full transparency and hold corrupt officials and politicians accountable? The Kroll report affirms a lack of government cooperation with the audit, including the PGR office. That is not a promising sign. For the moment being, political will, rather than judiciary capacity or the legal apparatus seems to be lacking to limit corruption.

Finally, while the justice system is chronically underfunded and, as described above, somewhat compromised by Executive dominance, another trend is undermining the checks on the Executive, namely the overt and covert threats on the physical integrity on justices. Several murders of key figures in the justice sector, most notably judge Dinis Silica, prosecutor Marcelino Vilanculos and lawyer Gilles Cistac – along with attacks and murders against other outspoken figures (see below) – have increased the atmosphere of insecurity and fear.¹¹⁸ When prominent criminals and convicts are sprung from prisons or from prison transport every now and then, on top of attacks against judges and critics in the justice system that are not duly investigated, it bears witness of a justice system unable, and in part unwilling, to implement law and order in

114 The aftermath of the Kroll report may break this tradition for the first time.

115 See Adam Smith International (2017). Mozambique: Fiduciary risk assessment, DFID/Adam Smith International. P.68.

116 Ibid.

117 Siba-Siba Macuaca was murdered on August 11, 2001. He was the head of banking supervision at the Bank of Mozambique and became emergency chair of the privatised Austral Bank when it collapsed in April 2001 after fraud carried out by highly placed people. Siba-Siba attempted to recover bad debts, including some from senior people in government and in Frelimo. He was thrown down the stairwell in the bank’s high-rise building.

118 ‘Murder in Mozambique’, in ZAM, at <https://www.zam-magazine.com/perspectives/arena/348-murder-in-mozambique> (last accessed 20 May, 2017).

any consistent way. It amounts to a major threat against the rule of law in the land.

2.4.4. Civil society and the media

While there are a number of civil society organisations active in Mozambique, due to its demographic structure, wide spread poverty and low educational general level, civil society as a whole must be characterised as weak. The density of CSOs in the periphery is very low.¹¹⁹ However, the presence of some very active advocacy organisations in Maputo maintains a noticeable strength. Most of these civil society organisations still depend economically on donor financing. During the one-party state, all social organisations were in some way or other linked to Frelimo. After a hiatus in the post-war days where these organisations tried to create a distance from the party, they have during the later years largely returned to the fold of Frelimo, especially during the presidency of Guebuza. This is the case of the trade union central, the Organização dos Trabalhadores de Moçambique (OTM) and the women's organisation Organização da Mulher Moçambicana (OMM), as well as the Organização da Juventude Moçambicana (OJM), the youth organisation. As such, they are not to be interpreted either as fully state organisations, neither as common CSOs. They remain important vehicles for Frelimo's system of organisation, mobilisation and control – and the recruitment of the party's leaders.

However, the most important civil and advocacy organisations have been established since 1994. It is possible to group these into different categories. There are organisations that represent economic and professional groups.¹²⁰ Within the area of Public policy and anti-corruption, there are several organisations.¹²¹ There are also organi-

sations that work within the area of environmental policies.¹²² It should be mentioned that some Norwegian investors have been in conflict with environmental CSOs over land issues. The most prominent human rights organisation (though controversial) is Liga dos Direitos Humanos (The League for Human Rights). In the area of women's rights there are also several organisations, as well as for disabled and disadvantaged people.¹²³ Some initiatives cover and support several civil society and non-governmental organisations.¹²⁴ Religious organisations, in particular the Catholic Church, have had an ability to pressure the government – in particular with regard to its moral obligation to fight poverty, but also to maintain the dialogue with Renamo. In addition to the Catholic Church, Islam is strong, particularly in the Northern part of the country and new Pentecostal churches, with inspiration from Brazil, have a growing influence.

The most important medium in Mozambique is, without doubt, radio. The strongest actor is Rádio Moçambique, which is the state owned public radio broadcaster. It has local offices in all the provinces, and broadcasts on three national channels. There are two networks of community radios in the country. One which is government controlled – Instituto de Comunicação Social (ICS), which operates approximately 40 radio stations and one which is an organisation of independent community radios Fórum Nacional de Rádios Comunitárias (FORCOM) which organises approximately 70 stations. In addition, there are number of private commercial radio stations mainly in the cities, and particularly in Maputo.

119 See Tvedten, I. and A. Orre (2016).

120 Examples may be on the one hand União Nacional De Camponeses (UNAC, National Union Of Farmers), and on the other Ordem dos Advogados de Moçambique (The lawyers organisation) and the Confederação das Associações Económicas de Moçambique (CTA), which is the Confederation of private enterprises.

121 The most important are Grupo Moçambicano da Dívida (GMD) (Mozambican Debt Group), Centro de Ingridade Publica (CIP) (Public Integrity Center).

122 Examples are – Justiça Ambiental (JA, Environmental Justice) and Centro Terra Viva (CTV, Centre for the Living Earth).

123 Forum Mulher (Women's Forum), Rede Moçambicana de Organizações Contra o SIDA (Monaso - Network for Organisations working against AIDS) and Associação dos Cegos e Amblíopes de Moçambique (ACAMO, The Association for the blind and partly sighted), Forum de Associações Moçambicanas de Pessoas com deficiência (FAMOD, Forum of the Associations for Disabled People).

124 The most important of these are Concern Universal Moçambique, Mecanismo de Apoio à Sociedade Civil (MASC, Civil Society Support Mechanism) and AGIR (Programa de Acções para uma Governação Inclusiva e Responsável), initiated by the Swedish Embassy and supported by among others the Norwegian Embassy.

The press in Mozambique is definitely an urban and very much an elite phenomenon. There are now three dailies in the country with an estimated total print run of around 35.000 copies.¹²⁵ At present there are more than ten weeklies, but they come and go, and their total circulation is hard to establish, but a fair guess-timate is that they in total print approximately 80.000 copies per week.¹²⁶ Additionally, there are at least five e-mail newssheets, which is an interesting Mozambican phenomenon, and much investigative and critical journalism is being published in those.

The two most important actors in the TV market are SOICO with STV and Televisão de Moçambique (TVM), which has two channels. STV has the highest number of viewers. Otherwise the Portuguese public service broadcaster RTP has a special African service distributed by cable. There are two main commercial stations – Televisão Independente de Moçambique (TIM) and Televisão Klint (KTV). There are also two TV channels operated by evangelical groups. Much of the distribution of TV signals is in the urban areas. The country should have finalised the migration to digital television by June 2014, but this is still not in place and mired in controversy due to the Guebuza family's economic interests in the operation.

Internet access is still relatively low. At the end of 2016 it was estimated to be 6.4 per cent, but with the development of mobile Internet this is increasing rapidly. There are three mobile phone operators – including one state owned. The estimated mobile phone penetration at the end 2015 was 62 per cent. There is an increasing use of Internet based platforms for journalism

and expression of opinions and dissemination of news and view in the country. The most important social medium is Facebook, followed by WhatsApp, which serve as distribution platforms for critical journalism and information. An example is that the daily digital paper @ *Verdade* is disseminated via Facebook.

General debate and journalism is open in the country. The government media are, however, clearly partisan, particularly during elections. In 2015, a new law on access to information was passed. It is hoped that this will contribute to a further improved climate when it comes to insight into how government functions. There are several NGOs working to protect and promote freedom of the press and expression in the country. Among these are the local chapter of Media Institute of Southern Africa (MISA) and Oxfam IBIS Moçambique.

Yet, attacks against journalists still constitute a real threat against critical voices and journalists. There are tendencies to self-censorship. The three most prominent cases are the assassinations of the investigative journalist Carlos Cardoso in 2000 and critical law professor Giles Cistac in 2015, as well as the attack on the academic and public commentator José Jaime Macuane in 2016. Local administrators, the secret services and police often persecute journalists in the provincial press and in community radio stations.

In summation, the public debate and the possibilities for criticism of government and officials are relatively open in the capital city, at least compared to many other African countries. However, that urban situation is hugely different from that the countryside, were the situation is far more repressive, and there is much less space for critical voices.¹²⁷

125 The two most important are the government controlled *Notícias*, and the independent *O País* owned by the media group Sociedade Independente de Comunicação (SOICO). These also have Internet editions.

126 The Sunday paper *Domingo* is government controlled. The most important weekly is *Savana*.

127 See also Orre, A. (2010). Entrenching the party-state in the multiparty era: Opposition parties, traditional authorities and new councils of local representatives in Angola and Mozambique. PhD dissertation, University of Bergen.

3. Formal and informal mechanisms of the political economy

3.1. The role of external support and financing

‘Spending un-earned money, that is the state’s *raisons d’être*’.

This is how one long-time observer of Mozambican politics and development summed up his understanding of the country’s political economy. Since independence, the state and elites that ran Mozambique always depended on spending money from abroad much more than on the country’s productive capacity. Domestic revenue mobilisation was never anywhere near enough to cover the running costs of the state.

In that situation, all governments since independence have attempted to maximise external support while both trying to play donors off against each other and to develop alternative income streams. Frelimo tried not to depend on a single backer only and always attempted to keep multiple sources of support. Frelimo was one of the few liberation movements to have support from both the Soviet Union and China as well as from the Nordic countries.¹²⁸ The recent appeal to China was an attempt to gain support, as well as to circumvent traditional donors’ power while maintaining their economic support.

Four presidents have headed Mozambique since independence, all from the Frelimo party, and the success of their presidency depended on their ability to attract external/international support from allies and friends. The three first presidents clearly left their mark on Mozambique by reorienting the country on the international scene.

The first president, Samora Machel (1975-86), brought the country out of its dependence on Portugal. In contrast to some other African countries, pegging Mozambique’s post-independence elite formation on its ties to the former colonial metropole was *not* an option, being neither economically realistic nor politically feasible. Instead, he sought support for Frelimo and its self-declared socialist project among the Eastern Bloc countries as well as among the sympathetically inclined Europeans, not least the Nordic countries.

The second president, Joaquim Chissano (1986-2003), sought to distance the country from its (ever more declining) Soviet-bloc allies. Instead, he oversaw the introduction of privatisation and market liberalism. Under a shared commitment to the principles of the Washington Consensus,¹²⁹ Chissano managed to realign the country with The West, thus attracting donor (development) support, new financing and loans from the World Bank and the IMF, as well as foreign direct investment by private multinational capital.

President Armando Guebuza (2004-2013), while not making a clean break with the past – as had Chissano, certainly reoriented the country and brought in new international actors: Enter the BRICS countries and particularly China.¹³⁰

As a collateral for the ever-increasing loans, one may say that Mozambique first relied on political support (to the Soviet bloc), then its

128 See: <http://www.liberationafrica.se/publications/>

129 Abrahamsson, H. and A. Nilsson (1996). “The Washington consensus” and Mozambique. Gothenburg, Gothenburg Univ. Dept. of Peace and Development Research.

130 Alden, C. and S. Chichava, Eds. (2014). China and Mozambique: From Comrades to Capitalists. Auckland Park, Fanele.

public sector companies (to the Western capital), then its natural resources (to the emerging power partners). With each reorientation, new capital (most importantly cash) was mobilised, bringing opportunities and capital for investment in the political elite's favoured development projects, but also for significant self-enrichment. However, each round appears to be temporal. After an initial in-flow of capital mobilised by the latest international partners, it came the time for Mozambique to repay its swelling debt to them – which proved difficult.¹³¹ In that situation, the latest partners signalled inability or unwillingness to fully finance Mozambique's needs (at least, the needs as formulated by the political elite).

It thus seems that we can postulate the following as permanent features of the Mozambican political economy. Firstly, since colonial times, the political elites have sought to mobilise investments and finance capital from abroad to finance both investments and consumption of imported goods and services. Secondly, the quest for such capital has led the country's leadership to reorient internationally, with geopolitical implications. Finally, these reorientations influenced the ideological choices and trappings of the Frelimo party.

It is our understanding that such an analysis sheds light on the crisis that currently ravages the presidency of Filipe Nyusi (2014 –). There are currently no obvious candidates on the horizon from which Nyusi could hope to mobilise significant amounts of capital.¹³² Instead, he seems to have inherited a strategy that developed under his predecessor, in whose government he served as minister of defence. That option was to mobilise capital in the form of loans, at commercial rates, from the international private banking system, using state guarantees and the recently discovered *potential* as a future major natural gas exporter as an argument that the country could repay. This mechanism lay behind the EMATUM, ProIn-

dicus and MAM loans scandal that afflicted the country after 2013. *Africa Confidential*¹³³ has argued that it may very well have set back the sector development instead of speeding it up, adding disincentives to that caused by the falling commodity prices. Existing sources of revenue from the extractives sector (like coal) are not likely to be large enough to make a real dent in the debt crisis.¹³⁴

3.1.1. Assessing the LNG potential

Will the coming of the LNG industry significantly improve the fiscal prospects for the Mozambican state? Based on estimated royalties and taxes from the energy sector the Ministry of Finance and Economy predicted in late 2016 that government revenue would increase by an average of US\$2bn a year between 2021 and 2025. Available independent assessments suggest that this is too optimistic.

On June 1 2017, an investment agreement was signed for first planned floating liquefied natural gas (FLNG) project on the Area 4 block in the Rovuma Basin. The operator in what is called Coral FLNG project is the Italian company ENI, which has a 50 per cent stake. China's state owned CNPC has 20 per cent, while Mozambique's national oil company (ENH), South Korean Kogas and Portuguese Galp Energia each have 10 per cent. Eni announced in March that it sold a 25 per cent stake to ExxonMobil for US\$2.8bn. This deal is supposed to be finalised in September 2017. The predicted start up is in 2021, with first cargo in 2022 – that is, if everything goes according to plan. Despite major financial, technical and political risks, the project has drawn potential investments from fifteen banks – twelve international and three Mozambican.¹³⁵

131 Francisco, A. (2016). Introdução. Desafios para Moçambique 2016. IESE. Maputo, IESE.

132 President Nyusi went to China in mid-2016, but seems to have returned "empty handed" <http://www.dw.com/en/mozambique-looks-to-china-for-financial-help/a-19266055>. (Last accessed May 22, 2017)

133 https://www.africa-confidential.com/article/id/11807/Good_gas_and_bad_governance. (Last accessed May 22, 2017)

134 Justiça Ambiental (2015). The economics of coal: Where are its benefits? https://issuu.com/justicaambiental/docs/the_economics_of_coal_digital. Maputo, Justiça Ambiental. (Last accessed May 22, 2017)

135 Among these are China EXIM, Korea EXIM, Italian SACE (Servizi Assicurativi del Commercio Estero), and French Coface (Compagnie Française d'Assurance pour le Commerce Extérieur). <http://zitamar.com/eni-reaches-fid-coral-south-flng-project-mozambique/> (Last accessed July 04, 2017)

The Economist Intelligence Unit assessed the implications of the signing of the investment agreement and pointed out that:

[...] the impact of the Coral FLNG project on the real economy during the construction phase will be limited by the developers' reliance on imported goods and services, and the net impact on the capital account will be modest as higher foreign direct investment offsets higher imports. When the gas comes on stream, export earnings will support the trade balance, but, since the commercial terms of a 20 year sales agreement with the UK's BP have not been made public, the scale of earnings remains unknown. The level of royalties and taxes that the government stands to earn have also not been made public, but we doubt that these will transform the public finances—particularly in the early years of production as investment is recouped.

The Economist Intelligence Unit thinks this is unrealistic for two reasons – firstly, because production will fall short of the government's overly optimistic targets, and secondly since government revenue will materialise much slower than the government's optimistic suggestions. It writes:

'Assuming that production starts later and is on a smaller scale than the government envisages, and accounting for developers' cost-recovery during the first years of production, we think it is unfeasible that government revenue from the gas projects will begin to increase by 25% a year from 2021.'¹³⁶

136 The EIU explains in detail: 'However, with the Coral LNG project contributing just 3.4m t/y, reaching these targets is dependent almost entirely on the onshore LNG facilities being planned by ExxonMobil (US) and Anadarko (US). Progress on these projects has been slower, with the developers not expecting to reach final investment decisions until 2018 — at the earliest — but delays to financing, sales contracts and resettlement plans could set this back further. The projects will then need probably at least four years of construction time. Moreover, developing facilities of this scale [...] rising international borrowing costs and a depressed global LNG market — production is likely to be ramped up more slowly than envisaged by the authorities. Secondly, even when the gas comes on stream, we think the government's revenue will be much slower to materialise than its projections suggest. The government's main sources of revenue from LNG will be corporate income tax on the concessionaires, its share of the gas profits and the dividends paid by the state-owned company that holds stakes in the projects. The exact terms that government has

The EIU, however, does concede that it will relieve pressure of the cash-strapped treasury in the near term (such as when the government earns some US\$ 350mn as a capital gains tax windfall as a consequence of ENI selling shares to ExxonMobil. With real fiscal revenue set to be far lower than expectations, some of the “players” in the Mozambican elite will likely (based on past behaviour) try to make deals that increases their short-term profits, at the expense of long-term benefit for the country as a whole.

3.2. The political economy of the Frelimo party-state

The “Frelimo party-state” is a key concept in the following analysis. Although Mozambique is officially a multiparty democracy, and the Constitution clearly separates between state and political parties, we hold that this is a useful notion and one of the basic premises. Let us look at the resources the current party-state have at its disposal, either as inherited “assets”, or institutions that it has continued to entrench long after the end of the one-party era.

3.2.1. The resources of the party-state: Inherited and entrenched

Firstly, Frelimo led the country to independence, and therefore holds a source of traditional (in the Weberian sense) authority that not even Renamo challenges, although Renamo tries to do something similar by claiming it is the “father of democracy”. Secondly, Frelimo moulded the institutions of the state during the immediate post-independence years, and did so in the one-party context, without the need to compromise with other parties. Thirdly, Frelimo created a body of “mass organisations” that were tightly controlled and organised by state and party officials. Fourthly, Frelimo still holds state power, 42 years after independence, and has never relinquished the will and ability to use the state to serve its own

committed to have not been made public, but, for at least the first few years of production, the government's revenues will be limited by the extensive cost-recovery provisions that will have been afforded to developers.' See <http://country.eiu.com/article.aspx?articleid=1765441160>, last accessed July 12, 2017.

interests – such as staffing state and public institutions with Frelimo members and loyalists. Indeed, one of the hallmarks of the Guebuza-presidency was to re-emphasise and re-consolidate the party's control over the state bureaucracy, its territorial administration and the armed forces.¹³⁷

Finally, Frelimo's control over the local level is also crucial. In any normal village or town in Mozambique, even in the remotest periphery, contact with the local communities and state officials soon makes the inseparability of state and party apparent. There, the Local Organs of the State and traditional authorities usually work side by side. The latter, usually the so-called *régulos*, have been formally recognised by the State since 2000, received uniforms and a regular “subsidy”. During its first decade in power, Frelimo actively *combatted* the very existence of the traditional authorities, while Renamo successfully managed to mobilise rural support by expressing support for them.¹³⁸ By 2000, Frelimo had successfully reversed its policy. Mimicking the colonial state, it turned traditional authority figures into the extended arm of the Local State. Crucially, Frelimo also managed to instrumentalise traditional authority to the *party's* interests. In fact, this rapprochement policy, using state resources, served Frelimo so well that it proved a vital tenet of expanding Frelimo control and entrenching the Frelimo party-state in the periphery.¹³⁹

Frelimo has a virtual monopoly of distribution of goods and benefits through the Local Organs of the state (however puny they may seem, they

are important in a situation of generalised poverty). The party strongly influences channelling of development aid and state investment. One example is the infamous 7-million meticais in the District Development Funds (OILL), an important policy initiative in Guebuza's presidency. While purported to create jobs, grow food and create income in the rural areas, most of the 7-million funds went instead into non-productive or non-durable assets for commerce. It became a slush fund at the disposal of the Frelimo-appointed district administration and the Frelimo-appointed district consultative councils.¹⁴⁰

In short, after the war, Frelimo managed to block the political space and opportunities for opposition parties, particularly Renamo, in all that related to local governance by ensuring a Frelimo monopoly or dominance over:¹⁴¹

- 1) The **offices of the local state apparatus**, including their distribution of resources;
- 2) The **“local councils” and other institutions** of community representatives, and;
- 3) **Traditional authorities**, who remained clients of or politically aligned to the party-state.

As we saw in section 3.4.1, the opportunities are better for the opposition in the municipal *autarquias*, but the majority of the population remains in the rural areas where Frelimo maintains direct control of all state and public institutions.

3.2.2. Frelimo as a party

Frelimo built the party organisation during the liberation struggle and then continued to strengthen it during the one-party state. It has somewhat modified the principle of “democratic centralism” – a legacy of the Marxist-Leninist

137 Igreja, V. (2015). Os recursos da violência e as lutas pelo poder político em Moçambique. *Desafios para Moçambique 2015*. IESE. Maputo, IESE.; Manning, C. (2010). “Mozambique's slide into one party rule.” *Journal of Democracy* 21(2), Brito, L. d. (2016). *Intuições políticas e unidade nacional. Desafios para Moçambique 2016*. IESE. Maputo, IESE.

138 Geffray, C. (1990). *La cause des armes au Mozambique - Anthropologie d'une guerre civile*. Paris, Karthala. Abrahamsson & Nilsson (1995).

139 Kyed, H. M. and L. Buur (2006). “New sites of citizenship: Recognition of traditional authority and group-based citizenship in Mozambique.” *Journal of Southern African Studies* 32(3): 563-581, Buur, L. and H. M. Kyed (2007). Traditional authority in Mozambique: The legible space between state and community. In *State recognition and democratisation in Sub-Saharan Africa: A new dawn for traditional authorities?* L. Buur and H. M. Kyed. New York, Palgrave.

140 Orre, A. and S. C. Forquilha (2012). “Uma iniciativa condenada ao sucesso”. *O fundo distrital dos 7 milhões e suas consequências para governação em Moçambique*. Moçambique: Descentralizar o centralismo. Economia política, recursos, resultados. B. Weimer. Maputo, IESE.

141 Orre, A. (2010).

period that still exerts its powerful influence.¹⁴² However, the notion of Frelimo as the embodiment of state and nation remains a very strong feature.¹⁴³ An important element of the change inside the party took place under Guebuza when there was a concerted effort to build a party organisation of members from all walks of life under the control of the leadership. The point was to integrate as large a part of the population as possible into the party in order to mobilise for elections. Civil servants and government employees are expected to be members of the Party. This is evident during elections campaigns when ministries and other state organs grind to a halt, and the employees are busy campaigning.

The internal organisation of the party still maintains the characteristics of democratic centralism, with a hierarchical decision process, with the Central Committee and the political Commission being all-powerful and the President having the last word. The President is, however, not all-powerful, and according to reports, even if both Joaquim Chissano and Armando Guebuza tried to stay in power beyond their two periods, the party prevented them from doing so. Thus, unlike many other dominant parties in Africa, Frelimo is not dependent on an all-powerful leader.

The party is united at the same time as it is marked by diversity and factional fighting. For instance, Filipe Nyusi was appointed as candidate after a quite open but conflictual process with several candidates (incumbent Prime Minister Alberto Vaquina; minister of agriculture José Pacheco; former Prime Minister Luisa Diogo and the then minister of defence Filipe Nyusi. In spite of bitter contestations for positions on the ruling bodies, members do not resign from the party. Instead, they become part of a network of loosely connected and more or less powerful factions and patrimonial networks. These are closely related to party history and their importance and strength

have grown and waned over time. Allegiances also tend to shift. In the following, we shall argue that the factions that struggle for power within the party are separated less by different views of policy, only somewhat by ideology, but more about access to positions, resources and patronage power. This is the reason why present-day arguments over policies might just as well be superficial expressions of positioning for power, instead of a real dedication to ideological or programmatic positions.

3.2.3. The Frelimo party-state as the hub of wealth and rent distribution

In a 2010 article, Sumich wrote of Frelimo as a primary ‘arena of negotiation’ that channel various demands and interests through its internal structures.¹⁴⁴ Here, we shall add some detail to that metaphor. The process that led Frelimo to turn into the organising vehicle for elite and class formation started after the introduction of the first structural adjustment programme in 1987. It set out to privatise at least 1200 public and state enterprises and companies. Recognising that there was no local capitalist or entrepreneurial class in the country at that time, privatisation meant two things, according to Castel-Branco.¹⁴⁵ 1) Privatisation of larger companies to foreign investors, when these had some prospect of becoming profitable and yield profits for private owners and tax revenue for the state. 2) Smaller companies, actually 80 per cent of the stock to be sold, were sold to the managers of public enterprises, veterans of the national liberation struggle and small-scale traders who had been licensed by the one-party state. Already well positioned and politically connected to Frelimo party-state – rather than to its opposition – the Frelimo party extolled them as a domestic proto-capitalist class. They now became (relatively) wealthy due to privatisation – receiving the companies at concessional rates, or loans to buy them at much

142 Carbone, G. M. (2005). “Continuidade na renovação? Ten years of multiparty politics in Mozambique: roots, evolution and stabilisation of the Frelimo–Renamo party system.” *Journal of Modern African Studies* 43(3): 430 - 431.

143 Brito, L. d. (2016). *Intituições políticas e unidade nacional. Desafios para Moçambique 2016*. IESE. Maputo, IESE.

144 Sumich, J. (2010). “The Party and the State: Frelimo and Social Stratification in Post-socialist Mozambique.” *Development and Change*(41/4): 679-698.

145 Castel-Branco, C. N. (2016). *Dilemas da industrialização num contexto extractivo de acumulação de capital. Desafios para Moçambique 2016*. IESE. Maputo, IESE. Pps 157-8

subsidised rates.¹⁴⁶ The 1990s were also a time when hundreds of leading Frelimo members, or those politically well connected, received huge loans from the public banking system, much of which was never paid back. The privatisation of the public banks revealed the huge bad debt problem, which was eventually resolved by the state assuming the debt – in accordance with the IMF. This process of forging a local “oligarchy” – without any experience with industrial production – resembled those in post-socialist countries in Eastern Europe. However, what distinguished Mozambique was the oligarchy’s consistent ties to the ruling party.

The only possible exception is the significant segment of merchants with South Asian family backgrounds, many organised in a Muslim network of traders. Though culturally distinct, Frelimo has managed to gain the political allegiance also of large parts of this community. It maintains relatively good terms with the ruling party, but the origin of their merchant wealth is not tied to the party-state’s rentier economy as is the case with the nouveau-rich Frelimo elite. Moreover, this minority group has never made significant attempts at organising a separate political expression. In a recent article, Sumich argues that the emerging urban and educated middle classes – a product of the recent economic growth – remain politically tied to the Frelimo party.¹⁴⁷ The fact that the existing opposition parties hardly present a coherent or attractive ideological alternative for these middle classes, means that the *opportunities* for social mobility provided by The Party means that hitherto it retains an unbeatable pull on people with elite aspirations, the middle class and the vast majority that accept it for lack of good alternatives. Except for Frelimo’s state apparatus, there are almost no other sources of perks, jobs,

licenses and rural credits – all the things that most people need at some point.

The logic of the Mozambican economy is essentially non-productive and rent-seeking, or privilege seeking – by which is meant that the dominating behaviour of economic actors is to use favourable access to the state to secure a section of existing wealth.¹⁴⁸ This behaviour increases investment in non-productive assets, while productive investments become less attractive. Again, ‘spending un-earned money, that is the state’s *raisons d’être*’.

Others highlight the neo-patrimonialist logic of the political economy in Mozambique, by which is meant that the system – while dressing itself in the paraphernalia of a rational-bureaucratic republic (rule of law) – really operates under the patrimonial leadership of the president. He rules through a network of clients whose loyalty is secured by his ability to distribute patronage (perks, rent, economic privileges). With the state as the principal node of wealth distribution, the patron – in a constant fight against contenders – he uses state resources to “feed” his clientele as a way of mustering support. This blurs the distinction between public and private wealth, and breeds what is normally referred to as corruption.¹⁴⁹

The theory of rent-seeking and neo-patrimonialism provides some important insights into the logics of the political economy of Mozambique. However, we argue that one can best understand it by incorporating and understanding the role of the Frelimo party in tying together the state, still claiming they – and only they – represent the nation.¹⁵⁰ Frelimo is a complex machine that hitherto has managed to keep party unity in order to fight off external threats and pressure (mostly Renamo, but also pressure by the donors). At the same time, internal factionalism is strong, and is now probably closer to breaking up the party than at any time after independence.

146 On FRELIMO and the politics of privatisation, see also Pitcher, M. A. (2002). *Transforming Mozambique: The Politics of Privatization, 1975–2000*. New York, Cambridge University Press.

147 Sumich, J. (2016). *The middle class of Mozambique and the politics of the blank slate. The rise of Africa’s middle class*. H. Melber. London, Zed books.

148 <http://www.econlib.org/library/Enc/RentSeeking.html>

149 Bratton, M. and N. van de Walle (1997). *Democratic experiments in Africa*. Cambridge, Cambridge University Press.

150 Brito, L. d. (2016). *Intuições políticas e unidade nacional. Desafios para Moçambique 2016*. IESE. Maputo, IESE.

The character and role of these factions are of course partly secretive and partly difficult to identify, and often which elements they constitute are based on speculations and rumours. Nevertheless, in 2017 it seems as if the following groupings may be identified.

First, there is a group of faithful Samoristas who may be said to serve as a kind of moral voice that at occasions speak out against the decay in the party. Some of the key figures are Rui Balthazar, Sérgio Vieira, Jorge Rebelo, and not least Graça Machel. There are also others in this grouping that still have a lot of influence. One example is the old ideologue Marcelino dos Santos. It ought to be borne in mind that several of these people were hard liners during the Samora regime, and while they may not belong to the most rent-seeking elements, they are not necessarily without economic interests in the system.

Then there is the group occasionally referred to as the Makonde faction, which is close to the old military establishment and which has strong economic interest in the North and particularly Cabo Delgado. One of its main actors is the liberation war veteran Alberto Chipande. Another important actor is the National Assembly delegate Mateus Katupha, while a Macua, he is the chair of the organisation Cabo Delgado em Movimento. The group's influence has grown with the increased importance of mining and gas discoveries in the North. It is linked to interests in building a strong on-shore gas industry in competition with the plans for floating LNG plans, which were propagated under the Guebuza presidency.¹⁵¹ The group's influence has apparently increased under the Nyusi presidency – not least since the new head of the Security forces, the well-known “hardliner” Lagos Lidimo, is of Makonde origins.

In the first period of privatisation of state enterprises, Guebuza withdrew from politics and

concentrated on building his business empire with close associates and family, being involved in among others electricity transmission and equipment, telecommunications, gas, consulting, cement, tourism, construction, Tata vehicles, and fishing.¹⁵² During his presidency, Guebuza combined politics and business in a powerful mix of extended patrimonies. Guebuza was for a long time recognised as being the richest man in the country, and his daughter was building herself as a successful businesswoman of national impact – until she was murdered by her husband in late 2016.

A rival faction to Guebuza's is the one loosely connected to former President Chissano. He conducts his businesses through Fundação Joaquim Chissano and TIKO Investimentos. Chissano is involved in several grand projects – oil, telecommunications, and agriculture. Luisa Diogo, former minister of finance, is among the politicians regarded as part of this faction.

There are speculations that it is possible to discern the formation of a new faction around President Nyusi, partly consisting of younger and more professionally rather than politically oriented party members. However, some argue that he is also building power in the same manner as Guebuza did, by blatantly securing business opportunities for friends and family members.¹⁵³ *Africa Confidential* has given some backing for the rumours that Nyusi in fact leans heavily on political leaders of his own Makonde ethnic group.¹⁵⁴ It seems as if this faction is growing in strength and is getting allegiance from people who previously were under the influence of Guebuza.

151 See Africa Monitor for details of Chipande's alleged interests in the LNG development here https://www.africa-confidential.com/article/id/11807/Good_gas_and_bad_governance and here <https://www.africa-confidential.com/article/id/11658/Secret-security-debts-devastate-economy>. (Both quoted above and last accessed May 22, 2017)

152 Hanlon, J. and M. Mosse (2009). Is Mozambique's elite moving from corruption to development? In UNU-WIDER Conference on the Role of Elites in Economic Development, 12-13 June 2009, Helsinki, Finland, UNU-WIDER.

153 Tibana, R. (2017). As linhas das batalhas que vêm aí, e a necessidade de uma alternativa independente, Facebook post from April 4, 2017 (later circulated widely by the author).

154 Africa Confidential (2017). “Mozambique - A meandering audit trail.” *Africa Confidential* 58(9): 4-5.

3.3. Political violence and the armed conflict

Throughout the years of peace between 1992 and 2013, Renamo's president Dhlakama maintained his "presidential guard" in the rear – a small, but dedicated body of armed men. The immediate reason for the skirmishes that started in 2013 was his decision to move his residence from Nam-pula to Gorongosa in the Sofala province. It was interpreted as a threat, since the move suggested that he was returning to his armed "men in the bush" at a time when Dhlakama had repeatedly talked of 'dividing the country' in the middle and that Renamo would run the central and northern parts of the country.¹⁵⁵ The Guebuza government took the bait, and ordered the bombardment of Dhlakama's base in October 2013.

The ceasefire in the armed conflict between the Government and Renamo is one of the most important political developments in 2017. The Renamo leader Afonso Dhlakama declared the ceasefire for the first time 29 December 2016. It has since been renewed twice, currently until the end of 2017. Although it will take time to reach a permanent agreement, the ceasefire will likely hold – most importantly because further belligerence would come at high political price for both parties.¹⁵⁶ One source¹⁵⁷ with inside contacts argues that Renamo is low on armaments and without funds to restock, although its capacity to create disruption of the country's government and economic life remains intact (through low-intensity, unpredictable attacks). More importantly, Renamo currently calculates that it can capitalise on the Frelimo government's corruption problems and considerable unpopularity – and so it is in its interest to contribute to a constructive climate for free and fair local elections, planned for 15 October 2018. Above all, Dhlakama's very life is at risk. Having survived several assassination attempts during the

last few years, he needs to contribute to conditions in which he can come out of his central provinces hiding place to campaign in the open.

For the government, more conflict comes at the cost of further alienating donors, creditors, investors and voters alike. A prolongation of the truce is therefore the most likely scenario for the next few months. Yet, one opinion-maker present at the Beira-conference probably gave expression to the participants' underlying understanding and fears when he eloquently referred to 'this war ... that now appears to be on vacation'.

At the time of writing (July 2017), it seems that some sort of agreement between Renamo and the Government is likely – although for reasons having to do with short-term political calculations. It currently seems to be in President Nyusi's interest to have this in place before the Party Congress in September. He would be able to negotiate with the international community from a position of having contributed to stability. For Renamo the advantage is that it would give the party sufficient time to prepare for the local elections in 2018, where expectations are that they will do well. In addition, a settlement may also involve political and economic benefits to Renamo.¹⁵⁸ Once again, the solution of long-term contradictions and problems may be postponed.

3.3.1. Renamo the party - Frelimo's mirror and negation

Renamo was initially a creation of the Rhodesian white supremacist regime. After it fell in 1980 Renamo received support from apartheid South Africa. Both regimes used Renamo as a tool to destabilise the black African Frelimo government that had come to power in 1975.¹⁵⁹ However,

155 'Divide the country, says Renamo', in *MOZAMBIQUE News reports & clippings*, no. 264, 30 June 2014. https://www.open.ac.uk/technology/mozambique/sites/www.open.ac.uk/technology/mozambique/files/files/Mozambique_264-30June2014_book-launch_war.pdf (last accessed May 20, 2017)

156 *Savana*, 5 May 2017.

157 The contact asked for anonymity.

158 In an interview with *Savana* 16 de Junho de 2017, Dhlakama complained that negotiations were slow, and that one should not be deceived with unrealistic hopes, but nevertheless indicated that some sort of agreement would be reached. In another interview with Deutsche Welle on June 30, 2017, he also complained of transgressions from the army, but said that he did not hold President Nyusi for responsible for these. <http://clubofmozambique.com/news/government-marking-time-in-mozambique-peace-talks-afonso-dhlakama-says/> (Last accessed July 4, 2017).

159 Vines, A. (1996). *Renamo: from terrorism to democracy in Mozambique?* Oxford, James Currey.

Renamo evolved, and it quickly learned to tap into the frustrations of the many who disliked Frelimo's post-independence policies, juxtaposing "tradition" against Frelimo's "high modernist developmentalism",¹⁶⁰ religion against Frelimo's secularism,¹⁶¹ rural peasants against Frelimo's urban classes,¹⁶² and "democracy" against Frelimo's state-led "socialism" and "marxism".¹⁶³ To the surprise of many, Renamo managed to transform itself into a political party – and much stronger than most African opposition parties. Although it has remained under the personalistic leadership of its party president Afonso Dhlakama, it has sustained local party branches and an electoral machine for nearly three decades.¹⁶⁴ It is politically and geographically strongest in the centre provinces and in the populous Nampula province in the north, but is comparatively very weak in the Southern provinces.

Renamo has a popular standing in Mozambique's countryside, not necessarily due to its popular policies, but for two principal reasons: For one, it systematically and credibly opposes Frelimo, and second, its leader Afonso Dhlakama is a charismatic figure. Apart from that, Renamo possesses some of the structural characteristics of Frelimo. They both grew out of being guerrilla movements and out of armed struggle. Thus, Renamo has maintained the authoritarian and pyramidal organisational characteristics of a military organisation – but it also maintains a solid network of party offices and local leaders called

"delegates" in nearly all of the country's districts, cities and towns – hence, they slavishly follow the administrative structures set up by the Frelimo state. In this sense, Renamo is much more of an organised party than so many African one-man opposition parties. Its structures served it well in the two first elections – 1994 and 1999, where the party and its leader Afonso Dhlakama gained a substantial part of the votes. Renamo did not manage to maintain unity within a strict structure and contrary to Frelimo, it has actually suffered from a succession of splits. The three most important were Raul Domingos, who was Renamo's chief negotiator at the Rome peace negotiations 1990 – 1992. He was expelled in 2000, and went on to form his own party. The other was Daviz Simango, who is the Mayor of Beira and leader of MDM. Finally the Mayor of Quelimane, Manuel Araujo (MDM), was also formerly in Renamo.

Nevertheless, Dhlakama has managed to keep control of the party and not least of its armed factions, and is now back in control even after the setbacks in the elections in 2004 and 2009 – the 2014 elections appears to have been a major boost to Dhlakama's leadership. There have been constant speculations about how Renamo manages to finance their operations, as the party does not have the same access to resources as Frelimo – but there are no indications of foreign backers during recent times. Access to the spoils is an important part of the contestation between Renamo and the government. Apart from what the party receives through parliamentary representation and business interests in the parts of the country where it is influential, there have been speculations that money comes from illegal activities in the form of poaching and smuggling.

3.3.2. Decentralisation and power-sharing

Why are issues of decentralisation and the question of electing the provincial governors now such contested topics? One of Renamo's main demands since the armed conflict reignited after the 2014 elections is that the provincial Governors in the provinces where Renamo won the elections should come from Renamo. The demand is not new, and

160 See Pitcher, A. (1998). "Disruption without transformation: agrarian relations and livelihoods in Nampula province, Mozambique 1975-1995." *Journal of Southern African Studies* (24/1): 115.; and Geffray, C. (1990).

161 Chingono, M. F. (1996). *The State, violence and development: the political economy of war in Mozambique*. Aldershot, Avebury.

162 Bowen, M. L. (2000). *The state against the peasantry. Rural struggles in colonial and postcolonial Mozambique*. Charlottesville and London, The university press of Virginia.; Abrahamsson, H. and A. Nilsson (1995). *Mozambique: the troubled transition: from socialist construction to free market capitalism*. London, Zed Books.

163 Cahen, M. (1994). *Renamo, o grande partido conservador-populista*. *Savana*. Maputo. Nov 4.

164 Manning, C. (1998). "Constructing opposition in Mozambique: Renamo as political party." *Journal of Southern African Studies* 24(1): 161-189.

was one of the key Renamo-demands that led to the nation-wide demonstrations in 2002 that resulted in more than a hundred dead, including a massacre of around 80 Renamo-members in a Cabo Delgado jail. Back then, as now, Frelimo argued that appointing the provincial governors is a presidential prerogative, not Renamo's.

A fateful decision by the Frelimo-dominated legislature in 1997 set the country's local governance onto an unfortunate path-dependency that only major reforms can change.¹⁶⁵ Since decentralisation and power-sharing were key ingredients of the peace agreement in 1992, the still one-party legislature made a law in 1994 which was essentially a radical plan to transform *all* of the country's 128 districts into local government bodies with an elected leadership. However, the electoral results later that year scared the Frelimo leadership, which realised that if the general election results had been converted to local elections, then Renamo would have won power in the majority of the country's districts. Thus, the 1994 law was never implemented. Instead, it was declared unconstitutional, and in 1997 a new law was enacted (law 2/97), which underlined the principle of gradualism – meaning that elected local government bodies with some real autonomy (called *autarquias*, that is, municipalities) would only be set up where the “socio-economic conditions” were ripe.

What followed was the creation of 33 *autarquias* – but only in 23 cities and 10 larger towns, the places (perhaps with the exception of Beira) where Frelimo was fairly sure the party could win elections. Not only were the ten towns chosen for municipalisations clearly a biased selection to Frelimo's advantage, so were the subsequent choices of 20 more towns.¹⁶⁶ In hindsight, it is quite clear that the whole set up worked as a grand scheme of gerrymandering, designed in a way that held elections in the places where Frelimo was at an advantage, and prevented elections in the rest of

the country. Renamo boycotted the first municipal elections in 1997, as well as the ones in 2013.

In the rural areas, where the majority of the population lives, there are, to date, no local elections. There, Frelimo remains in control through its central appointment of the leaders of the local organs of the state (provinces, districts, administrative posts). According to historian Michel Cahen, Frelimo has instilled such an intense political culture in its local state officials that ‘electoral fraud emerges as a local responsibility. A local party member does not require any orientation from the central committee to organise electoral fraud’.¹⁶⁷ Real power over the local budgets and bureaucracy, as well as security forces, remains with the provincial governors with the local backing of the district administrators.

In effect, the Government postponed the creation of *autarquias* in the rural areas indefinitely. Even if it adds more towns to the list of *autarquias*, these will be ever-smaller towns. Despite the many restrictions on municipal autonomy (for the *autarquias*), it does represent a potential for more local political influence for opposition parties – such as elected mayors and access to limited local fiscal resources. Renamo probably factors that in and hopes to gain from winning in many towns, while remaining ambivalent of the gains it can take from winning local elections and rule *autarquias* in the current (complicated) institutional circumstances. In any case, the local government laws mean that the countryside, with its majority population and natural resources, remains firmly within the Frelimo party-state “jurisdiction”. As pointed out above, Frelimo maintains a firm grip on the local state apparatus, where it effectively excludes any meaningful participation by opposition parties – albeit, at the ideological insistence by NGOs and development partners, some level of non-political (and ultimately party-controlled) participation is possible in the local councils.¹⁶⁸

165 Some would also argue that a constitutional reform is needed, though this was an argument refuted by constitutionalist Gilles Cistac – an argument that, due to the enormous political significance of it, many think cost him his life.

166 Forquilha, S.C (2016). Democracia e municipalização em Moçambique: Gradualismo, participação local e serviços básicos. Desafios para Moçambique 2016. Maputo, IESE.

167 <http://clubofmozambique.com/news/mozambique-is-suffering-a-military-expression-of-a-political-problem/> (Last accessed May 22, 2017)

168 Forquilha, S. C. and A. Orre (2012). Conselhos Locais e institucionalização democrática em Moçambique. Moçambique: Descentralizar o centralismo. Economia politica, recursos, resultados. B. Weimer. Maputo, IESE.

One needs to understand the effect of “decentralisation” after 1997 – referring to a series of reforms affecting local governance in various ways, though not always necessarily leading to a less centralised governance. It has been a two-pronged process, one urban and one rural. Some donors supported this urban form of decentralisation in the *autarquias*.¹⁶⁹ On the rural side of this bifurcated local governance system, other development partners and donors invested heavily – like the UNDP, the World Bank, and several bilateral donors. They set out to improve the institutional performance of district administrations and their ability to plan and manage small infrastructure investments in response to community demands – doing so in a participatory and transparent manner. Under the heading of decentralisation, donors designed hugely ambitious plans that included participatory planning, MDG alignment, accountability, integrated services, legislative reform, rule of law, access to justice, human rights, strengthening CSO capacity, national planning and finally, local economic development (LED).¹⁷⁰ The evaluations of these ambitious donor programmes point to some meaningful successes in strengthening the local state capacity – in particular at the district level. However, it is essential to grasp what follows from the above analysis of the state as a *Frelimo party-state*: Any effective strengthening of these local organs also strengthened the *Frelimo* state.

The Local Organs of the State have also been used to encroach on the autonomy and resources of the opposition-ruled urban municipalities. With scarce resources, and few opportunities for patronage, the option of winning urban municipalities is also hardly very attractive to Renamo. As pointed out by Rosário, in the study of Renamo’s stint of rule in Ilha de Moçambique municipality, its rule was no less nepotistic, corrupt, authori-

tarian or clientelistic than Frelimo’s. However, it was a ‘poor man’s clientelism’, as Renamo was a poor party in a poor municipality with absolutely no help from the surrounding local organs of the state (ruled by Frelimo).¹⁷¹

In effect, if Frelimo were to abandon its hold over the entire apparatus of the Local Organs of the State – it would be the biggest change in Mozambican political economy of the public administration since end of the formal one-party state in 1990. This is why Frelimo resists this apparently simple reform so hard. It is a key feature of its party-state system. One plausible hypothesis is that Frelimo fears that if it loses its control over the governors, it will lose control over all the lower tiers of the local organs of the state in that province – which in turn could lead to a quick succession of events where Frelimo’s power unravels. Renamo is clearly aware of such a dynamic, which is why it has demanded that it can appoint (or elect) the provincial governors, at least since the 1999 elections.

The above discussion relates to how Renamo has been barred from any role in the civil service. In an important recent article, João Pereira discusses how Renamo has felt consistently excluded from the military and security apparatus. Pereira relates it to intransigence and intolerance on both sides.¹⁷² In a similar way, Renamo has appealed to the peace accord of 1992 and insisting on the integration of its veterans in the national armed forces (the FADM). Simultaneously, Frelimo has used its *de facto* political powers over the military to co-opt or exclude Renamo cadres – to the frustration of Dhlakama – allegedly under heavy pressure by Renamo’s war veterans feeling marginalised and impoverished.

In order to conclude this section: One major reason for the conflict in the country is that Frelimo has practically monopolised political power

169 Weimer, B., Ed. (2012). Moçambique: Descentralizar o Centralismo - Economia política, recursos e resultados. Maputo, IESE.

170 Mugabe, J. (2012). UNDP’s decentralization and local development programme in Mozambique, evaluation report., UNDP, Independent Evaluation Group - World Bank (2014). Decentralized planning and finance project: The Republic of Mozambique. Project performance assessment report., The World Bank.

171 Rosário, D. d. (2012). Alternância eleitoral do poder local - os limites da descentralização democrática: o caso do Município da Ilha de Moçambique, 2003-2008. Moçambique: Descentralizar o centralismo. Economia política, recursos e resultados. B. Weimer. Maputo, IESE.

172 Pereira, J. C. (2016). Para onde vamos? Dinâmicas de paz e conflitos em Moçambique. Desafios para Moçambique 2016. IESE. Maputo, IESE.

and centralised it, including total control over the civil and military apparatus. Despite Renamo winning persistently high percentages of the national vote in elections, they are nowhere near holding executive power – and nowhere closer to grabbing hold of the state and public resources than they were 20 years ago. Frelimo and their institutions bar Renamo from entering in the realm of the central executive and the Local Organs of the State. The more Renamo demands entrance, Frelimo blocks – but little happens to the separation of party and state.

3.3.3. Resources, poverty, inequality and revolts

Let us first be clear that the recent Mozambican war (or “armed conflict”) is *not* a classical resource war. Renamo has not made consistent attempts at capturing the high-value natural resources – even when these are “capturable” (which is hardly the case of offshore gas fields). Rather, Renamo has disturbed or threatened to disturb the transport channels in the areas where the resources are found – but only in the central and centre-north provinces – like disturbing the rail transport of the coal from Tete. By contrast, they have not attempted to disturb the northern coastal areas closest to the offshore gas fields. Many have pointed out that Renamo’s game is really to use destabilising tactics of threats to increase its leverage at the bargaining power. It is currently difficult to see that Renamo aims for other goals than to displace the Frelimo government in the central state, or as a second best, to win the governorships in “their” provinces from where they can rule with some autonomy. The elements that are consistent with a resource war argument are that the newfound resource *potential* increases the potential power of the Executive, like the potential to distribute patronage. The resources therefore amplified the existing tensions between the warring parties.

The strong disappointment with the results of the last decades’ development plays strongly against Frelimo. Therefore, the party’s “policies” are unlikely to convince people to vote for their party, though voters may be attracted by its abil-

ity to vilify the opposition parties and to dish out patronage. Hence, it is possible that at least sections of Frelimo see the usefulness in maintaining Renamo – its main opponent – as a dangerous and destabilising “bush enemy”, thereby entertaining a high conflict level. This may be the logic behind the indications that Renamo members are harassed and murdered by secret hit squads.

On the other hand, Renamo and the other opposition parties are likely to be drawn into this game – due to their inability to organise around policies and strategies other than to take part in the occasional election – before returning to the habitual tactics of threats followed by negotiation. However, the combination of Renamo’s *credibility* as an unbending opponent of Frelimo rule, its anti-thesis, so to say, and Frelimo’s persistent unpopularity in large parts of the country, there will be a large and real possibility that voters may punish Frelimo in the next elections.

However, the logics of clientelism means that if Frelimo can mobilise new resources and temporarily stabilise the macro-economy, it may be able to generate just enough support to keep going as before. However, there is considerable migration of youth from the rural to the urban areas. It is not likely that the government will be able to create enough employment for a young and growing population, which contributes to the dissatisfaction that is generally understood to be increasing. Simultaneously, Frelimo’s ability to dole out patronage is severely limited compared to the heyday of Guebuza’s presidency – where hundreds of thousands of loyalists would receive small loans through the 7-million meticais “micro-credit” schemes to the value of several hundred million dollars, and similar sums to far fewer people in the MAM-ProIndicus-EMATUM affair. A new IMF stabilisation programme, brought about by the new debt crisis, is likely to severely limit Frelimo’s ability to expand, or even maintain, public spending. All these factors appear to point at increased conflict levels – unless a national compact can make the parties agree on a radically different pathway, and create new rules of the game. At this very moment, there is no sign of such a constitutional moment on the horizon.

4. Summing up and looking ahead


Arndt et.al express a sense of “optimism of the will” common to observers of Mozambique:¹⁷³ ‘Mozambique has the potential to achieve rapid and broad-based economic and social progress. With key reforms and success in maintaining peace and stability, it will.’

Many international actors have a stake in highlighting the *de facto* positive achievements in the country, as well as its potential – but often at the price of under-communicating difficulties. In our view, these possibilities should be realistically weighed against the significant risks that face the country: the continuation of conflict, corruption, lack of accountability, clientelism, rent seeking and patronage that in turn result in violence, more poverty, and inequality. This implies that ‘key reforms’ are not enough. Rather, large structural changes, setting the Mozambican economy on a different development path are needed to meet the optimistic scenario.

Three main areas make Mozambique’s situation precarious, each discussed below:

- 1) **The political system is fragile** – even if it on the surface still seems to hold together – and is marked by a fundamental lack of trust between the main contenders, not least concerning the electoral institutions. If upcoming elections – both local and national – were to bring the first major loss of power for Frelimo, it would be the biggest test for the Mozambican nation-state and its political institutions since the civil war.
- 2) **Armed hostilities might flare up** should the disagreement over elections or other political upheavals trigger renewed dissatisfaction in Renamo – but also if the “hawks” in Frelimo win terrain in the armed forces.
- 3) **The economy is in a deep crisis** and it is a question whether the country will be able to move out of this even with the prospect of gas revenues and the resumption of international budget support. There is deep dissatisfaction in the population over current economic developments (high inflation rate and a real decrease in the standard of living).

Depending on how the country manages these sources of instability, we see a few general scenarios.

| | |
|---|---|
|  | <p>Stability</p> <p>A. Positive: Reforms and political stability, economic development and poverty reduction.</p> <p>B. Incremental positive change, though inconsistent and sometimes contradictory.</p> <p>C. Status quo, no fundamental changes to the current political setup.</p> <p>D. Negative, conflict and authoritarianism, increased corruption and inequality.</p> <p>Instability</p> |
| | <p>E. (Renamo victory, unknown consequences).</p> |

We will return to scenarios through the following discussion of the content of what “key” or structural reforms might entail.

173 Arndt, C., E. S. Jones, et al. (2015). Mozambique: Off-track or temporarily sidelined?. WIDER Working Paper, no.44. Copenhagen, UNU-WIDER.

4.1. Separating party and state: unlocking a reform agenda

Mozambique is a constitutional multi-party democracy – but its actors do not live up to the principles laid down in the constitution. The country remains in practice a party-state under Frelimo. Hence, to create de facto separation of the Party and the State will imply a reform that is in perfect accordance with the constitution.

Mozambique's many seasoned development partners are aware of the glaring contradiction between the constitutional provisions and the real state of affairs, but they have tiptoed around it – in the interest of non-interference and good state-to-state relations it has been politically expedient to ignore the issue.¹⁷⁴ Frelimo's long-standing monopolisation of political power is incommensurate with any definition of a truly democratic form of governance, which is one of the reasons why Mozambique scores relatively low on democracy and governance indexes.¹⁷⁵ The legitimacy crisis in the country has its roots in the manner that the Frelimo political elite undermines constitutional and democratic principles.¹⁷⁶ The lack of power sharing also fuels the current instability. Thus, the separation of party and state entails the creation of a more legal-rational civil service, a real tendency toward a meritocratic, professional service-oriented public sector, as well as the creation of elected institutions with a *de facto* possibility of an alternation of the party in power. Such a reform agenda could serve several goals:

- Contribute to democratisation.
- Improve governance and serve to counter corruption, rent seeking, clientelism and nepotism.
- Facilitate a peaceful resolution of the government-Renamo conflict.

The obvious road to the dismantlement of the Frelimo party-state is a Renamo/opposition victory in general elections (sc.E). Its consequences are unknown, but evidently far-reaching. Even though it might fairly reflect the wishes of the voters, it would upset the entire polity built by Frelimo since independence and therefore lead to a period of uncertainty – but it is also a quite unlikely scenario.

Alternatively, a large civil-democratic movement may be able to carry such an agenda. Pressure by the country's development partners (donors and creditors) might also contribute to disintegration and a power vacuum in Frelimo. However, it is by no means certain that reformers will come out stronger. Donors are probably anxious that pushing such an agenda could lead to a more protracted and generalised instability instead of the desirable items described above. The notion that “Frelimo is the only alternative (despite its flaws)” seems to be a major – rarely uttered but tacitly recognised – political capital for Frelimo when faced with both internal and external criticism. Hence, Mozambique can be characterised as a “stabilitocracy”.¹⁷⁷

One alternative scenario is therefore that Frelimo remains in power. In order to stem external criticism and internal opposition, it is forced to make a number of institutional changes that go in the direction of more checks and balances at the central level (horizontal accountability) such as strengthening the justice system, as well as selecting more responsive politicians (vertical

174 As an example, a recent operational plan for Swedish cooperation merely mentions that ‘the roles of the state and the Frelimo party are overlapping’.

175 See: The Economist Intelligence Unit Democracy Index 2016, http://pages.eiu.com/rs/783-XMC-194/images/Democracy_Index_2016.pdf (Last accessed May 14, 2017) where it is pointed out that citizens are frustrated over the government's failure to manage political, security and economic crises. Also, The Ibrahim Index of Good Governance (http://s.mo.ibrahim.foundation/u/2016/10/01184917/2016-Index-Report.pdf?_ga=2.249406532.270097370.1494788297-831488326.1494788297) (Last accessed May 14, 2017)

176 Virtanen, P. (2015). “Democracy, poverty and civil society in Mozambique.” *Africa Review*(7/2).

177 Srdja Pavlović, introduced this term in a blog on Montenegro in late 2016 to describe a regime where undemocratic practices persist and international society has turned a blind eye while at the same time preaching the virtues of democracy, rule of law, and transparency. See: <http://www.biopag.eu/2017/05/05/what-is-a-stabilitocracy/> (Last accessed July 09, 2017)

accountability) and make some more concessions in the direction of decentralisation. Quite likely, such reforms would be wide but shallow, and rather intended as cosmetic fixes to salvage the Frelimo party-state. This scenario (sc.B) is different from status quo (sc. C), since it promises the possibility of incremental improvements. “Conservative” forces in Frelimo would likely oppose the reforms and seek to undermine the new institutions, and soon try to staff them with party-goons rather than professional civil servants. Such a scenario is likely to be short-lived, as it would inevitably tend toward either unleashing a real gradual improvement (sc.A) or spiral back into the current situation (sc.C).

4.2. Peace – or ceasefire?

The current ceasefire, largely holding since December 2016, and the fact that belligerent parties are on talking terms, represents a window of opportunity for Mozambique. Consequently, many thousands of refugees have been able to return home, more fields could be cultivated and the coal industry could boost record production in the first quarter of 2017.¹⁷⁸

Ceasefire and talks are evidently necessary ingredients in a lasting peace (alt. A). It does not mean, however, that the issues leading up to the hostilities between Renamo and the Government have been resolved. They are still under negotiation. There are currently discussions in the non-party civil society in Mozambique about the possibility of holding gubernatorial elections in the provinces, an idea also seemingly acceptable to Renamo. Such a reform may very well be the outcome. Since elected provincial assemblies already exist (based on proportional representation of parties), there are two options: *Direct* elections by popular vote or *indirect* elections, where the provincial assemblies would elect the governors. In both cases, it would up-end Frelimo’s top-down control over the provinces.

One possible scenario for the near future is that another “electoral battlefield” opens around

the provincial governorships. This would, in some circumstances, lead to Frelimo losing power in the provincial governments – it could also lead to further instability if there is renewed distrust among the quality and fairness of upcoming elections.

A lasting peace would probably require that the current conflicts over electoral rules and procedures be permanently solved by developing a non-partisan, unbiased electoral organisation. Many Mozambican commentators express dissatisfaction that the two parties with arms hold the country hostage, that they negotiate short-term deals to share power between them rather than deepen developmental reforms. It is therefore a certain risk that the peace agenda – based on a bilateral compromise between Renamo and Frelimo – comes at the cost of reforms that aim for the broader development needs of the country.

4.3. The economy: Development versus resource curse

Mozambique’s recent governance trajectory indicates that it is ill suited to take on a massive inflow of revenue from its exploration of its natural gas resources – were it to become a reality. Corruption and lack of accountability threaten any sustainable development programme, which in turn will exacerbate the concentration of power and the inequalities that already fuel armed conflict. On the positive side, the main resources are still in the ground, which provide for a sensible future extraction velocity – under circumstances that ensure that these resources are used in ways that benefit ordinary Mozambicans (alt. A).

Our experience is that Mozambicans associate positive development in terms such as:¹⁷⁹

- **Peace and stabilisation** of the country.
- **Public services**, pro-poor and delivered with serious dedication and integrity.

¹⁷⁸ <http://zitamar.com/vale-mozambique-sets-new-production-record-50-growth-q1/> (Last accessed July 12, 2017)

¹⁷⁹ For instance, while there was no enthusiasm for the LNG or other “mega-projects”, these were the concerns most expressed during the conference “Moçambique: que Caminhos para o Futuro?” in Beira, 22-24 March 2017. See <http://www.masc.org.mz/pt/noticias/comunicacoes-apresentadas-na-conferencia-internacional-mocambique-que-caminhos-para-o-futuro-3000p4m000> (Last accessed May 22, 2017)

- **Local economic development**, which means rural agriculturally based production, or otherwise in areas where poor people are already engaged, aiming to unlock their productive capacities.
- **Security issues** are of the great concern, since both petty (everyday) and serious violent crime undermines people's sense of well-being, both in the urban and rural areas.
- **Jobs** with decent conditions.
- **Equality**: A significant part of the civil society organisations (in particular) are also concerned about **gender equality**, and the creation of **better opportunities for disadvantaged** minorities.

There is a near total consensus among Mozambican scholars that the country failed to base development on the *already existing* productive capacities of the population, and did not succeed in diversifying its economy.¹⁸⁰ Development through massive investment in large-scale extractive industries tends to ignore existing capacity – creating a disconnection between the lives and capacities of the masses of people and the mega-projects sector. The latter is hardly attractive to anyone outside of the Mozambican political class (and to a certain extent its international backers). There need *not* be a contradiction between the extractives- and export-led development on the one hand and a poverty-reducing sustainable development on the other – insofar as the main efforts of the country are concentrated on improvement in the above-mentioned areas.

One real risk is that Mozambican authorities will permit the extraction and mortgaging of its resources in an unsustainable, non-developmental and anti-poor manner (Alt. D).¹⁸¹ A

180 Mosca, J. (2016). Políticas públicas e agricultura em Moçambique. Maputo, Escolar Editora.; Castel-Branco, C. N., N. Massingue, et al. (2015). Questions on productive development in Mozambique. Maputo, IESE.; Hanlon, J. and T. Smart (2014).

181 Another, but no less risky threat, is that the Government will be induced to take up large loans in order to finance its shares in joint investment consortia with the multinational oil companies. This could, potentially, yield larger returns in the future, but it would also entail larger debt - that the country is hardly in a good position to do at the moment.

combination of factors and actors will put the Mozambican authorities under much pressure to do so:

- **Debt**: The debt crisis will make it even more tempting to seek alleviation by mortgaging its resources and fast-tracking the exploration (on sub-optimal terms).
- **No alternative allies**: On the international scene, there are no apparent alternative sources of mobilising quick cash ('spending un-earned money').
- **Multinationals**: Profit-seeking multinational companies will pressure the government, some directly through enticing proposals (possibly by bribing politicians) or indirectly through the diplomatic and development partners.¹⁸²
- **Donor pressure**: Relatively well-meaning development partners with origins in the same countries as these multinationals will argue that Mozambique can be an exception to the resource curse of so many other African countries.¹⁸³
- **Internal pressure** from rent-seekers expecting enrichment from the extractive industry.

It is *possible* that Mozambique may be able to convert the resource rent into sustainable development and poverty reduction. A resource-inspired optimism rests on the assumption that from here onwards, things will improve and will not fail. However, most of what Mozambique has done since the discovery of huge resources leads it toward the trajectory of the worst, rather than the best, examples of African petro-states.

182 In May 2017 it was reported that multinational oil and gas companies pressured the government to rewrite its oil and gas legislation before they would sign the contracts for fifth oil and gas exploration round. See: "Multinacionais exigem mudanças legislativas", *Savana* 12 de Maio de 2017 and <http://zitamar.com/mozambique-may-need-rewrite-new-oil-regime-companies-start-exploration/> (Last accessed May 23, 2017)

183 An example of this is that the World Bank on May 2, 2017 announced that it would enter into a new Country Partnership Framework (CPF) to promote diversified growth, invest in human capital and enhance sustainability in accordance with Mozambique's five-year plan. <https://furtherafrica.com/2017/05/02/mozambique-world-bank-endorses-1-7b-strategy-to-enhance-diversification/> (Last accessed May 2, 2017)

So far, the government has mortgaged the country's resources to arrange up-front cash. Whether an expanded extractive industry can provide new money for economic development for the country, with immediate benefits to the population, is an open question, and many signs are worrying. On 26 April 2017, even before the release of the Kroll report, the Frelimo majority in the National Assembly accepted the remainder of the US\$2 billion secret loans as legitimate government debt – although the government probably borrowed them in an unconstitutional way.¹⁸⁴ In effect, the decision has placed, for now, the debt burden on *all* Mozambicans. It is possible that some of the 'secret loans' debt might eventually be cancelled, if international pressure mounts to deem it "odious", but the damage to the country's credit-worthiness has been done.

As said above, currently no local business class outside of the Frelimo party-elite could form the basis of a local petroleum service industry – that is, local content in the supply of services and goods. This makes local industrial development a rather remote prospect. It renders the Angolan scenario a real possibility – where the elite close to the president and the ruling party capture all local content opportunities.¹⁸⁵ Such a scenario may create further elite accumulation, but little in terms of broad-based development and significant employment opportunities. Consequently, a resource curse-like path is therefore one likely outcome, meaning high profits for a few, more inequality, corruption, environmental problems, conflict, debt and inflation (alt. D).

Stevens et.al revisits the resource curse theory in a recent study of extractive industries and warns: 'Diversification of the economy away from the resource sector over an appropriate timeframe remains a key priority. In many cases, this will require slower development of projects to allow time for institutional capacity in gov-

ernment and the private sector to develop.'¹⁸⁶ Perhaps then, the real opportunities lie in helping Mozambique *delay* its resource extraction as much as possible. In such a scenario, the mortgaging of its resources would *only* and *solely* be part of a debt resolution package – but it would not serve elite enrichment. That perspective was reflected in a statement by more than thirty civil society organisations that recently asked the IMF *not* to provide more loans to Mozambique before a series of conditions related to improved transparency and accountability were met, and in addition a pro-poor programme.¹⁸⁷ There is talk of mustering a broad coalition against corruption, and the current political climate provides an unprecedented possibility to get people to throw their weight behind it. The opportunities truly lie in that many, if not most, Mozambicans have an expressed (not to say intrinsic or ingrained) understanding that the development that matters to them does not come from the exploration of the petroleum resources. Again, such a coalition will not necessarily change the structural features of political economy, but help put it on a track toward a scenario B rather than D.

4.4. Political economy, changes

Which scenario is more likely in the near future? For sure, the aftermath of the Kroll-report will force changes upon Mozambique that were not on the programme before the 2016 events. In addition, the profound crisis is likely to lead to a hard confrontation between various forces and interests. Who will come out strengthened is unpredictable.

The factions in Frelimo are currently preparing the struggles that are likely to play out towards the Frelimo congress in September 2017, but also long after. There are hardliners entrenched in the security forces, rent-seekers, develop-

184 <http://www.cipmoz.org/images/COMMUNIQUE.pdf> (Last accessed May 2, 2017)

185 Soares de Oliveira, R. (2015). *Magnificent and beggar land - Angola since the civil war*. London, Hurst.

186 Stevens, P., G. Lahn, et al. (2015). *The resource curse revisited*. https://www.chathamhouse.org/sites/files/chathamhouse/field/field_document/20150804ResourceCurseRevisitedStevensLahnKooroshyFinal.pdf. London, Chatham House.

187 "Declaração de organizações da sociedade civil: Medidas que devem ser implementadas antes de o FMI conceder novamente empréstimos ao Governo de Moçambique". Printed in *Savana*, 14 April 2017.

ment-oriented technocrats and politicians with a close ear to the aspirations of the poor masses – although factions do not conform to neat categories. Which of the scenarios that will play out is partly dependent on which forces come out ahead in the current power-struggles in the ruling party. The most hawkish and rent-seeking factions may drive the country towards a negative scenario (Sc.D), or even make an eventual opposition victory more likely (Sc.E). Alternatively, “reformers” may come out strengthened. They would, however, be opposed by other factions, implying inconsistent and unstable application of reform attempts. This would lead the country on a path toward reform with gradual, at best slowly incremental improvement (sc. B).

A note of caution: One should *not* interpret President Nyusi’s recent ‘anti-corruption initiatives’ as a real dedication to avoid the previous governments’ patronage and rent-seeking traps. Apart from his obvious need to placate his government’s foreign financiers, it may as well be a drive to eliminate people loyal to his party-internal opponents and to consolidate his own dominance. A wait-and-see approach to the sincerity of this agenda is therefore a prudent precaution.

In order to resume financing of the Mozambican state, development partners and the IMF will force some degree of control with corruption and transparency, especially in the extractive industries, but it is yet unknown whether they will require cosmetic (ineffectual) changes, or profound changes that will seriously impinge on the rent-seeking opportunities for the elite.¹⁸⁸ Some sort of agreement about resuming support is likely, as it has “always” happened. The difference now is the profundity of the crisis, and the higher stakes, meaning someone will have

to make real concessions. Mozambique is under heavy pressure to complete a Debt Sustainability Analysis (DSA) - an IMF and World Bank tool to look at external debt and how it could be managed, or renegotiated if necessary.¹⁸⁹ In short, open conditionality terms are back on the agenda.

The following changes in the political economy seem likely, as compared to the previous ten-year period:

- Mozambique will enter a period of high-debt, and worsening economy. This potentially increases the leverage of the state’s external financiers and creditors (IMF, traditional donors, Chinese banks, Mozambican banks). That leverage also depends on their ability to coordinate an agenda, which raises questions about what they intend to use it for? Will the international community come together to ensure the extractive industries only, or to help set Mozambique up toward a more broad-based development?
- With the development of the LNG industry, large international petroleum companies and their consortia will have high stakes in the country. Seeking long-term profits, so their primary interest is in stability, not necessarily broad-based development. They will put pressure on donors and the government to serve their interests.
- Some novel mode of decentralisation (gubernatorial elections?) may change political dynamics in unpredictable ways.
- A new deal will strengthen Renamo and Dhlakama’s “hand” in the short-term. Alternatively, the hardliners in the state security forces prevent it, risking renewed civil conflict.
- The party-state and presidential system remains, but some more powers are likely to be delegated to the national assembly and some institutions in the justice system, in attempts to set up more horizontal check and balances.

188 These could include components such as some sort of prosecution as a result of the Kroll report; establishing an independent Fiscal Council and enactment of a new Fiscal Accountability Law; international auditing companies making ex-post checks on major government and state company procurement processes; prosecution of large scale corruption crimes to the full extent of the law; increased financial resources to the Attorney General’s Office and the Anti-corruption office (GCCC); and moves to conform to EITI standards with priority to the beneficiary ownership transparency standard.

189 See: J. Hanlon: “MOZAMBIQUE 376. News reports & clipings.9 July 2017”

- Privatisation (“restructuring”) of LAM, EDM, TDM-mCel and other state companies means new opportunities for some, and lay-offs for others. There are historical precedents for rent-seeking and elite enrichment. Services may become better, but more expensive for most consumers.

The profundity of the crisis is such that a very positive development and stability (sc.A) seems unlikely. Status quo (sc.C) is in no one’s interest, and it is therefore also unlikely. The most likely short-term scenario, we believe, is scenario B, a tenuous reform effort that at best will bring gradual, incremental improvements. This means there will be attempts by all parties to mend relations, involving agreements around a credible reform programme and peace terms to bring Dhlakama “out of the bush”. However, the counter-forces are many, as described above, making a B scenario volatile and inherently unstable. It could rapidly swing Mozambique towards a negative scenario, where civil and military confrontations take over, preventing long-term investments and foreign development aid. Scenario D is less likely than B, but also a real possibility. Mozambique is usually not classified as a “fragile” state, but as any breakable material navigating in stormy waters, it may best be tagged “fragile”, that is to handle it with extra care.

4.5. Implications for Norwegian activity in Mozambique

Norway has a role in Mozambique as a historical donor and development partner, although it is presently not even among the ten largest donors in monetary terms. In addition, Norway has commercial interests the country, in energy, gas and petroleum, and other natural resources.

Having tried many approaches to force the government of Mozambique to march in line with their wishes, its main development partners have currently chosen the tactic of withholding aid, mainly the general budget support. While it is doubtful whether that has the desired impact to promote transparency and good governance, the dilemma of withholding aid is that it risks

hurting the ones who were the primary target of aid in the first place: the poor. Neither can donors simply “leave” without further jeopardising the state capacity it badly needs to handle a minimally safe operating environment for large-scale investments. Thus, while ODA will not be as large part of Mozambique’s politics and economy as it was a couple of decades ago – all indications are that donor countries will remain in place in some form or another.

Just as Mozambicans are now forced to rethink its polity, so the time for pondering has come to the donor community. If not questioning the foundation of development partnership and ODA *per se*, the current situation calls for a new development partnership paradigm.

There are two sides to explain why aid during the last decade or so in general failed to reach the desired goals in so many areas.¹⁹⁰ On the one side, the Mozambican government partners may agree on the objectives, but resist the measures needed to implement real change, or they have simply been unable to implement these measures (for reasons that have been the topic of much of this political economy analysis). On the other side, donor countries themselves may unwittingly undermine the effectiveness of aid for a variety of reasons – for instance due to the way aid is organised (and disorganised). Indeed, while there is a broad agreement on the overall goals of aid, the consensus dissipates with the concrete objectives, actors and measures to be supported. Norway may do well in the current situation to be a constructive partner to contribute to the much-needed and broad dialogue about better coordination, and new aid forms.

One of the principal problems of current lack of coordination is that there is no discernible paradigm for a development partnership – which is inherently difficult in a low-trust setting. In 2016, donors withdrew the rest of general budget support, the centrepiece of the donor paradigm for much of the 2000’s. Neither we, nor do others, advocate the return to the fragmentation of project-based aid or the dogmatically neoliberal

¹⁹⁰ See Tvedten, I. and A. Orre (2016), for an opinion on aid effectiveness and results in Mozambique.

structural adjustment programmes. However, elements of these will remain: As long as trust is not re-established, donors will attempt to be “hands on”, and the unsustainable debt level is likely to spur austerity measures. In this situation, both donors and Mozambique are in need of a radically improved and preferably country-specific aid paradigm in order to avoid aid dispersion in the current, rather haphazard way, by a multitude of donors.

Earlier in this report, we argue that it is important that investments in Mozambique are broad-based and avoid the concentration around mega-projects. There is a clear need and potential for developing commercial agriculture and for utilising the great potential the country has in energy resources – hydro and sun. Investments in small and medium sized enterprises particularly in the provinces, may contribute to both economic growth and employment. While often such investments may be controversial for the risk of capture by the “politically exposed” elite as well as due to resistance from local farming communities, NORFUND and other initiatives should continue to look for responsible possibilities of productive investments from Norway.

Ideally, a new paradigm for cooperation and development ought to be forged out of a consensus between donors and Mozambicans about the objectives, measures, means and beneficiaries of aid. Unfortunately, such aid coordination is extremely difficult in the current situation, where donor countries are increasingly tying aid to its own respective national interests, while many also doubt the sincerity of the Mozambican government as well as each other (not least if China is also understood as one of the international partners). If trust is to be re-established, much depends on political and institutional aftermath of the Kroll Report. Until that defines a new political and institutional order, prudence bodes for waiting out developments without committing to major new aid initiatives, while concentrating on existing engagements that have the potential to reduce excesses of rent-seeking and corruption in the extractive industries. Such a cautious approach could be complemented

with programmes that seek to stimulate a broad dialogue on Mozambique’s development. One could; for example, support empirically based analytical work on key policy choices and options including their consequences for different stakeholders.

If there is merit in this political economy analysis, a new cooperation approach must take the situation in Mozambique as a point of departure to succeed. That means Norway should work with Mozambican partners that *truly* want the methods and measures around agreed development goals, and not merely pay lip service to them. One must be wary about supporting partners (in government or otherwise) that merely claim to want poverty reduction, while in reality their interest is purely commercial and self-interested, whether they are Mozambican actors or international and Norwegian businesses interests. Instead, taking the lives and desires of Mozambicans seriously – as described in the previous section – may be a good point of departure for a dialogue about future cooperation.

Few but elite actors and foreigners envisage development as based on mega-projects and the large-scale extraction of natural resources. Nevertheless, on June 22, 2017, the Board of Oil for Development decided to extend its programme in Mozambique for four years starting spring 2018. This implies a new planning period for the programme.¹⁹¹ In this context, it is relevant to mention the overall OfD programme aim explicitly states that it is to “reduce poverty by promoting economically, environmentally and socially responsible management of petroleum resources.”¹⁹²

The OfD’s toolbox is definitely useful and welcome in Mozambique. Due to the precarious economic situation of the country and the desperate need the government has for investments in gas exploration, there is considerable pressure on the government to change its petroleum sector

191 See: *Olje for utvikling: Programveileder* <https://www.norad.no/om-bistand/publikasjon/2016/olje-for-utvikling-programveileder/> (Last accessed July 09, 2017)

192 <https://www.norad.no/en/front/thematic-areas/oil-for-development/> (Last accessed July 10, 2017)

legislation.¹⁹³ This may signal that Norway and OfD could take a prominent role in supporting Mozambique's ability to defend its interests in relation to pressure from the multinationals (including Norwegian ones). Furthermore, Mozambique faces a shortage of trained oil and gas workers, as well as engineers and macro-level sector expertise (such as in the National Petroleum Institute, the INP). The shortage will not only deny the country a role in a significant section of the petro-industry's value chain, but also keep it in a weak position before the industry giants. At least some degree of national expertise in each part of that chain strengthens it in relation to the powerful multinational companies. There are now programmes that aim to educate oil and gas workers of all types, despite difficulties due to the country's weak educational system. Norwegian support for training in this area would be welcome.¹⁹⁴ In Mozambique, support to civil society initiatives have also been tagged under OfD, and Norway could continue support to both local and international organisations that work to reveal corrupt practices and building transparency in the extractive industries.

Yet, a significant caveat to supporting Mozambique's petroleum sector, and to the OfD programme per se, remains. A strong focus on the very concept of "oil for development" may contribute to the *expectation* that Mozambique's future lies in more mega-projects in the petroleum industry. As we have argued, the extractives trap is a persisting danger to the country.

Highlighting the resource curse is not new,¹⁹⁵ nor the difficulty of OfD making a serious dent into Mozambique's entrenched governance challenges. As we see it, there are two forms of

engagement possible under the new OfD programme:

Full engagement: OfD becomes top priority (or the guiding paradigm) for Norwegian development aid to Mozambique. Premises: the development of the LNG sector will take place no matter what; the current moment (regime weakness, pre-LNG investment) is a crucial time for intervention; Norway's contribution through OfD is indispensable; and the potential by far outweighs the risks.

Or, **partial engagement:** While maintaining a significant additional "aid portfolio", OfD remains a cornerstone of Norwegian partnership with Mozambique. Here, Norway can make a significant contribution in this key area while also contributing meaningfully in relation to planning and regulation measures as well as providing significant support for competence development.

For any of these scenarios, we reiterate that Oil for Development and other Norwegian initiatives can have little meaning in Mozambique if it results in Norwegian support merely focussing on the upstream handling of the petroleum sector. The sector cannot be governed well in isolation from a political economy where corruption is the rule, and it cannot create development alone without a credible programme to generate development in the sectors around which the lifeworlds of the large majority of people circulate (agriculture, in particular).

Put succinctly: Mozambique's principal problem will not be to develop the petroleum sector, but to develop the institutions and overall development model to sustain both the sector, as well as the aspirations of the majority of Mozambicans. Such a focus on poverty reduction as the overall aim and overall governance as a key OfD feature – easy to forget for sector experts – is also in accordance with the recommendations of the 2012 OfD evaluation, and seems no less relevant now.¹⁹⁶

193 This was stated by the director of the National Petroleum Institute (INP) in May 2017 and reported in *Savana*: "Multinacionais exigem mudanças legislativas", *Savana* 12 de Maio de 2017 and <http://zitamar.com/mozambique-may-need-re-write-new-oil-regime-companies-start-exploration/> (Last accessed May 23, 2017) op.cit.

194 See <https://furtherafrica.com/2017/05/23/mozambican-govt-gets-afdb-legal-assistance-on-mining-contracts/> (Last accessed May 23, 2017)

195 See for instance Scanteam (2012). Facing the resource curse: Norway's Oil for Development program. Report 6/2012. NORAD Evaluation Department. Oslo, NORAD.

196 See Scanteam (2012).

Norwegian development aid to Mozambique takes huge risks if it commits large aid resources to the current regime before it has signalled clearly and credibly that it aims to establish transparency and accountability in governance. Meanwhile, Norwegian and other donors can work to create both horizontal and vertical accountability by fomenting forces in civil society, and perhaps even in some government agencies by strengthening transparency and the arm's length principles, and help foster an independent judiciary and a free press. In the case of OfD, there is a possibility for it to utilise its experiences by committing resources and putting pressure on the Ministry of Energy as well as the relevant directorates (INP). However, development partners can only do so sensibly in a long-term perspective since, even if they identify the right partners, chances are that impediments from the government prevent their blossoming. Then all development partners can do is to help such forces of checks and balances in surviving despite the many threats against them.

Recent history has shown us, however, that it is very difficult to achieve the necessary level of institutional reform with donor money and good intentions alone where these changes go against the ruling elite's interests. Political action, however difficult, is needed. There are a couple of remaining tools in the toolbox of Mozambique's development partners that are seldom used due to their inherent problems, and both also represent concrete challenges for Norway. One is to speak much louder and more boldly against the Government – about the need to separate party and state, share and deconcentrate political power, stop vilifying political opponents, end corruption, and to start prioritising poverty reduction and equality in development. Another tool is more aid conditionality. Evidently, such a stance is easier from the vantage point of the moral high ground, which for Mozambique's development partners is best achieved by practicing these same standards.

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