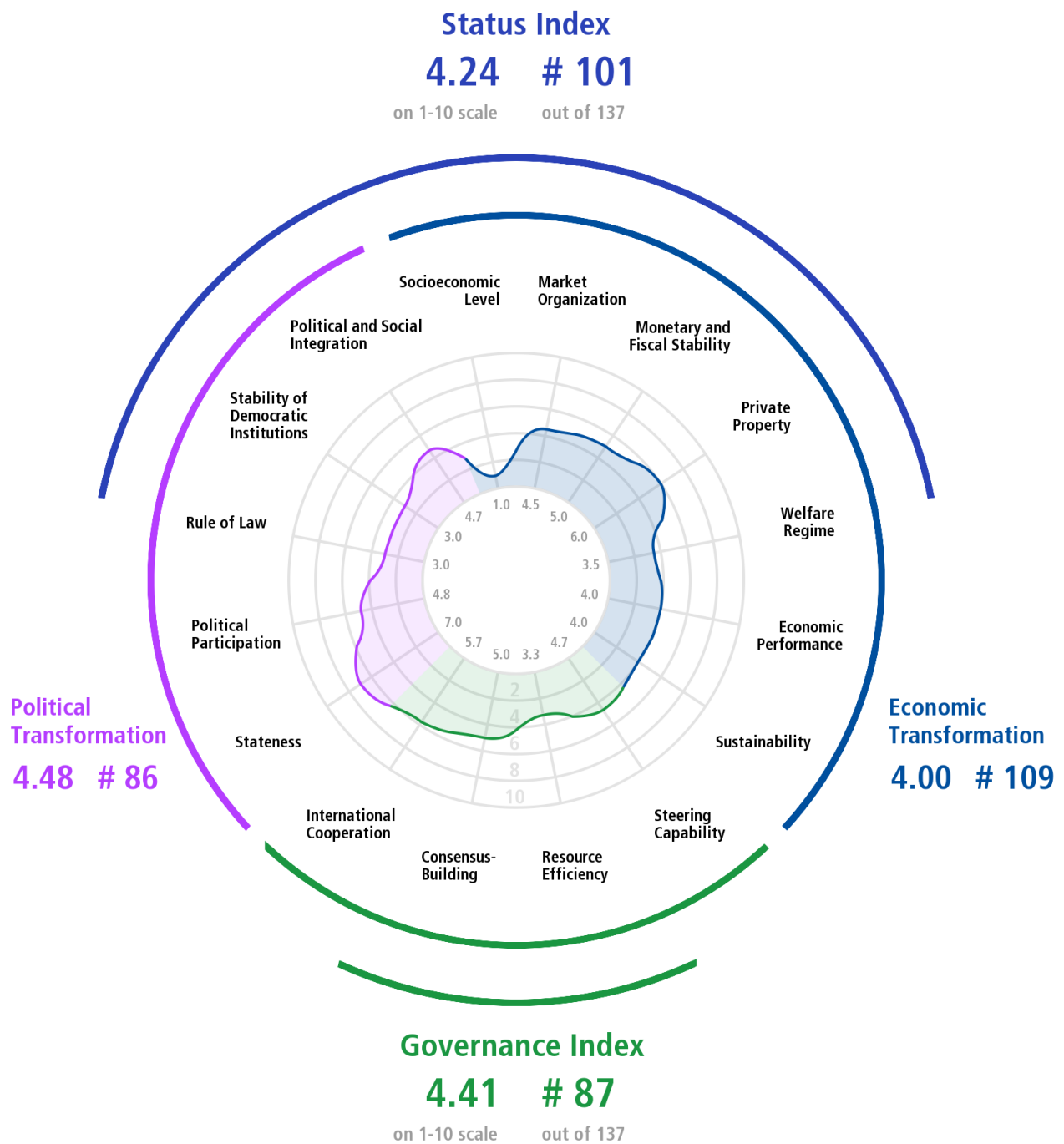


Mozambique



This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	29.5	HDI	0.446	GDP p.c., PPP \$	1328
Pop. growth ¹	% p.a.	2.9	HDI rank of 189	180	Gini Index	54.0
Life expectancy	years	59.3	UN Education Index	0.389	Poverty ³	% 81.5
Urban population	%	36.0	Gender inequality ²	0.569	Aid per capita \$	62.0

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

Mozambique currently faces four main challenges: consolidation of peace in relation to its political opposition, impunity with regard to large scale and high-level corruption, serious violations of human rights (murder and intimidation of dissident voices), the debt crisis that led the country to a fiscal abyss and intensifying security threats by Islamist terrorists operating in the north.

A base for peaceful general elections in 2019 has been established in the negotiations between the Mozambican National Resistance (RENAMO) and the government. Political concessions by the Mozambique Liberation Front (FRELIMO) promote further decentralization and RENAMO finally agreed to demilitarize its armed wing. The FRELIMO's tolerance of reconciliation remains to be seen during and after 2019 elections. The ruling party risks a considerable drop in voter support in the next elections as happened in local elections in 2018 due to impunity regarding the debt scandal and corruption.

The economy is still facing many challenges. Public debt might rise to 120% of GDP by 2020.

The incoming government will start in 2020. However, the government has defaulted on its debt-servicing, and it has started to mortgage future revenues from natural resource exploitation. It keeps its focus on megaprojects that are not generating the much-needed jobs particularly for the youth.

The last census in 2017 showed demographic growth rates of over 2% and an average growth rate of 7% for decades. The absolute number of people living in poverty has increased from 11 million in 2003 to 12.3 million in 2015. This growth also increased unemployed youth, who may engage in social movement or join the terror groups.

History and Characteristics of Transformation

President Filipe Nyusi's first mandate comes to an end in 2019. The current president inherited a political and economic mess from his predecessor Armando Guebuza who had ruled the country for ten years in a nearly autocratic manner. In the political domain, the main opposition party RENAMO took up arms again in 2013 and no consistent peace agreement has been signed.

The ruling party, FRELIMO declined in votes from 75% in 2009 to 57% in 2014 and it is expected that support will fall further in the 2019 elections. However, the ruling party remains dominant in parliament. Nonetheless, it is expected that ruling party may further decline in the next 2019 elections due to the hidden debt scandal that overshadows the Presidency of Filipe Nyusi since 2016.

This debt of \$850 million was contracted in 2013 (see BTI 2016), involving senior FRELIMO figures to constitute EMATUM – a parastatal enterprise. The money was spent in total and up front, but the project never became operational.

In addition to the EMATUM debts (see “anti-corruption policy”) additional state-backed loans of \$622 million for Proindicus and \$550 million for MAM in April 2016. The total hidden debt is about \$2 billion. However, it was revealed that more than \$1 billion of debts were left undisclosed. These sovereign guarantees contravened the Mozambican budget law, were against the public probity law and violated the constitution. This debt scandal led the IMF to stop all subsequent payments of its emergency loan. The international donor community also stopped its general budget support.

The peace negotiations with RENAMO that started with external assistance in 2017 were conducted successfully even after the sudden death of RENAMO leader Afonso Dhlakama. A Memorandum of Understanding had been signed in August 2018 and demilitarization started in October. The agreement consisted of advancing decentralization (election of provincial governors in 2019 and district administrators via party lists instead of appointments by the central government from 2014). It also includes disarmament, demobilization and integration of RENAMO militants into the Defense Forces.

The 2018 local elections were already conducted under the new electoral law that abolished the direct election of mayors and enhance party control via the party list. RENAMO participated for the first time in local elections after rounds of boycotts. This led the third largest opposition party MDM to lose towns previously in its hands to RENAMO. FRELIMO won the majority of the cities, but it did not win the absolute majority in most cities. This could predict challenges for the ruling party in 2019 elections.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The presidency of Filipe Nyusi has been characterized by major challenges to the state's monopoly on the use of force. The peace process with RENAMO dragged along. In 2016, RENAMO leader Afonso Dhlakama and President Nyusi agreed on a cease-fire. Both sides have not broken this compromise. The disarmament and integration of RENAMO fighters is still in progress. In August 2018, an agreement was signed. This aimed at integration of RENAMO cadres, disarmament and demobilization. In October 2018, the official process began to monitor disarmament. The process is led by an international group under the leadership of the Argentinian General Javier Antonio Perez Aquino. For disarmament, demobilization and reintegration to succeed, it is important that not only those members of RENAMO who had occupied high positions in the past but had officially been considered as reservists will be integrated into the hierarchy, but also the so-called residual members.

However, new challenges to the state's monopoly on the use of force emerged in Cabo Delgado. The wave of terror started off with attacks on police posts in Mocímboa da Praia and has since spread into the whole province. Frequent attacks have been reported. These attacks are characterized by decapitations and burning villages of the poorest of the poor. Perpetrators claim to act in the name of Islam. Like Boko Haram, they reject the state, advocate the boycott of state schools and established mosques. They call themselves Ahlu Sunnah Wa-Jamâ (often abbreviated to al-Sunnah) and it seems they are a genuine extremist Islamist phenomenon in Mozambique with links to foreign jihadists (Tanzania, Somalia, Kenya, Great Lakes Region), but operate independently. Al-Sunnah started off as a religious group but initiated military cells in 2015. They have a uniform appearance with shaved heads, long beards and white turbans. Their members seem mainly comprised of socially marginalized youth without formal employment or education. Strong support comes out of the Mwani ethnic group. Analysts believe that degrading social conditions in

Question
Score

Monopoly on the
use of force

5



Mozambique's poorest province and the feeling of political marginalization led to the vulnerability for radicalization. Illicit activities such as wood, charcoal, ivory and ruby smuggling enable them to finance their activities.

The government's response seems to be erratic and reactive so far.

Nation-building in Mozambique is largely shaped by the decolonization process. After independence, FRELIMO defined Mozambique as a nation and adopted Portuguese as a unifying language, unifying all ethnic groups.

Politically, FRELIMO aims to prevent the emergence of ethno-regional parties. Moreover, the Mozambican constitution prohibits parties with an ethnic or regional character. Nonetheless, some political leaders advocate for a federal system, which would allow for a more equal distribution of wealth and resources within the country. Regional and ethnic lobby groups, such as the Movimento Cívico de Solidariedade para Apoio da Zambézia (MOCIZA), were founded in reaction to the domination by cadres from southern Mozambique within FRELIMO. In addition, ethnicity cleavages have been discussed within elite and academic circles.

Recourse to ethnicity may be understood as a reaction to the rhetoric of a ruling party that states "Em Moçambique só há moçambicanos" while at the same time acting in the interests of a small almost ethnically homogenous elite. This provoked a reorientation within society in relation to the proclaimed nation-state, and some people and parties felt excluded. Most proposals for an enhanced decentralization brought forward by RENAMO in the peace negotiations were rejected after President Nyusi assumed office; thus, leading RENAMO to return to arms.

Article 54 of the Mozambican constitution guarantees the freedom of religion and underlines the laic character of the state. FRELIMO government maintains a distance and keeps religion out of public life while at the same time tolerates their sociopolitical engagement. Building a strictly secular state also kept religious influence at bay.

Nevertheless, the Catholic Church plays an important role as a mediator in the conflict between FRELIMO and RENAMO, drawing on their positive influence in the 1990s, when peace talks were facilitated by the Catholic lay community of Saint Egidio. Interfaith cooperation in Mozambique is high. For example, the Council of Christian Churches, the Catholic Church and the Islamic Council cooperate within the Observatório Eleitoral, a body that has been monitoring and accompanying the electoral processes in Mozambique since 2003. In 2018, they organized for the first time an inter-religious conference on peace and reconciliation that united religious leaders, politicians and civil society.

The Muslim community in Mozambique has been practicing a tolerant Islam for centuries. However, most Mozambican clerics have been seeking training in Egypt, Kuwait or Saudi Arabia and return with a more fundamentalist concept of Islam than

State identity

9



1

No interference of religious dogmas

9



1

the Sufi-inspired, Swahili-based traditional Islam. It is believed the government has refused to register these new Islamic associations led by the new trained clerics. These new trained clerics might have created radical Islamist group, who have been attacking the province of Cabo Delgado since 2017.

Basic administrative structures do exist in Mozambique and the country has made some progress in public administration. But public service delivery still remains on a low level – below the Millennium Development Goals (MDGs).^[1]

In 2017, approximately 51% of Mozambicans had access to safe and drinkable water: 80% in urban areas and 35% in rural areas. Sanitation remains low. In 2017, only 20.5% of people had access to safely managed sanitation facilities.

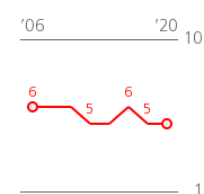
The government developed a National Urban Water and Sanitation Strategy 2011-2025 that places high hopes on the private sector. However, in the context of the Sustainable Development Goals (SDGs) and their review process, Mozambique has not presented any review report so far.

Collecting revenues and taxes has increased. Tax collection increased by 32% between 2017 and 2018, and Corporate income tax rose by 57%.

The reform of the public sector introduced with the Estratégia Global de Reforma do Sector Público (EGRSP) 2011 to 2025 also begins to take shape. The government has developed an e-government strategy that includes an electronic government network, government portal, capacity-building, state financial administration system, Mozambique e-government communication infrastructure project, national system of civil registration, biometric driving license and motor registration systems, biometric ID card and passport, and criminal registration system.

The digitalization particularly of the inventory of public servants has already shown its first results. In 2017, about 23,716 of the 357,430 public servants already registered in the electronic database did not show up. Approximately 8,765 people received payments without justification in 2017.

Basic
administration
5



2 | Political Participation

The constitution of Mozambique of 2004 guarantees fundamental rights and civil liberties for all its citizens. The constitution protects the right of Mozambicans to choose leaders through universal, direct, secret and periodic suffrage, through referenda on major national issues and through permanent democratic participation in government affairs. The right to vote is also extended to the diaspora. The constitution safeguards a two-term presidential limit.

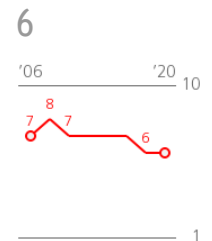
Since the 1992 peace accord, Mozambique has regularly organized presidential, parliamentary and provincial elections as well as elections in the independent municipalities (autarquias). However, it can be noted that over the years the quality has deteriorated. Violent clashes, infringements on the right of assembly for all parties and a continuously imbalanced playing field have become characteristic of the country's electoral processes. The election campaign during the general elections in 2014 had been marked by clashes between parties. Opposition parties faced difficulties accessing regions known to be in the hands of FRELIMO (e.g., Gaza province). Although the voting process had been considered free and fair problems emerged during vote counting.

The local elections in 2018 took place under a new constitutional dispensation. RENAMO participated for the first time in local elections under new leadership after the death of Afonso Dhlakama. With the new electoral law, the mayor of an autarquia was not elected directly but via his prime position on the party list of the party that has gained the majority of votes.

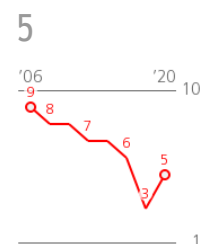
This very tight majority held by FRELIMO draws attention to the unusually high number of invalid votes (6%-7% in some municipalities), as well as to how complaints regarding irregularities and fraud are addressed. In all seven municipalities where the opposition presented their cases to the courts, these were rejected on procedural arguments without looking into the substance of the matter.

In the 2014 elections, Filipe Nyusi was elected as the new president of Mozambique, securing 57.03% of votes. Although Nyusi had not much political power, he broke with the ideology and structure of governance of former president Guebuza. In January 2017, he brought into his cabinet FRELIMO cadres who had last served as ministers under Chissano. Furthermore, he brought into his administration more technocrats and fewer party cadres aligned with Guebuza or former liberation fighters. When the incumbent party president, Guebuza tried to mobilize the party against Nyusi and his politics during FRELIMO's Central Committee meeting in April 2015, Guebuza was forced to step down, and Nyusi was elected as the president of the party.

Free and fair elections



Effective power to govern



Since 2017, President Nyusi seems to be making inroads in the struggle to control the state and his party. He continued negotiations with RENAMO and finally managed to find a compromise and fragile truce. With the appointment of General Lagos Henriques Lidimo (former head of the defense forces and a Makonde) as the new head of the intelligence service, Nyusi installed a much-respected cadre. The party congress has unanimously elected Felipe Nyusi as its presidential candidate for 2019.

Article 52 of the Mozambican constitution guarantees every citizen the right to associate freely, although organizations pursuing xenophobic, racist or violent objectives are not allowed. Article 53 enshrines the right to establish and join political parties. In practice, most social groupings are organized as associations, and are regulated by Law No. 8/91, which details the right to free association, as well as by the relevant articles in the Civil Code.

In the case of Lambda, the organization for the rights of homosexuals, bi- and transsexuals, the Constitutional Council ruled in 2017 that it is an infringement of fundamental rights to withhold the legalization of the organization referring to moral grounds. Lambda had tried since 2008 to legally register with the government.

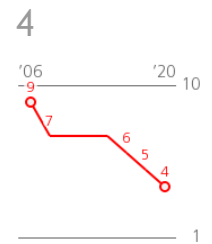
Freedom of assembly continues to be frequently infringed by the state bureaucracy or by the police (Polícia da República de Moçambique, PRM). When civil society organizations wanted to protest in 2016 against the political instability and high debt, police asked the organizers to abstain, as there were groups who wanted to disturb the demonstration. In another incident, the police refused to sign the authorization documents that had already been issued by the municipal council, and no demonstration was held. When the opposition party MDM intended to participate in a union-protest in May 2017, police first blocked their members, but later on authorities relented. In general, public sector workers are not allowed to strike. When administrative and technical staff of the state university Eduardo Mondlane (UEM) protested against the non-payment of a bonus, riot police broke up the illegal strike and used tear gas and rubber bullets against the protesters.

Mozambique's revised 2004 constitution guarantees freedom of the press. The Supreme Mass Media Council is tasked with guaranteeing this freedom and the public's right to information. The constitution explicitly protects journalists and grants them the right not to reveal their sources.^[SEP] In December 2014, parliament finally passed the long-awaited Access to Information bill (ATI) that obliges public and private bodies invested with public powers to release information on request.

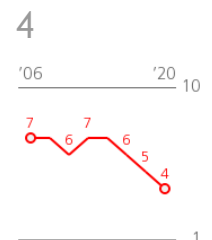
Nonetheless, journalist cannot access information from conflict zones, whether conflict related to RENAMO or FRELIMO, or the instability caused by radical Islamist groups in the north.

In addition, criminal libel and defamation laws deter journalists from writing freely. In recent years, surveillance by intelligence services has become more sophisticated.

Association /
assembly rights



Freedom of
expression



Widespread intimidation, harassment and death threats against journalists have become common and self-censorship especially in rural areas is rising. Mozambique's respect for press freedom decreases continuously, which is documented by its position on the World Press Freedom Index that slipped from 87 in 2016 to 93 in 2017 to 99 out of 180 in 2018.

This not only mobilized civil society but also urged the Commission for Justice and Peace of the Catholic Church to issue a statement condemning the ongoing attacks on the freedom of expression and thus on democracy while at the same time criticizing law enforcement authorities for their unsuccessful investigations.

New radio stations will have to pay for their set-up: €30,000 in fees plus annual operating costs. Particularly for rural areas, where people still rely on radio for information, this limits the space for media and will curtail particularly the independent media sector in Mozambique.

3 | Rule of Law

Although the Mozambican constitution in Article 134 provides for a separation of powers, the executive, legislative and the judiciary are all subjugated to the dominant party FRELIMO. Formally, office holders are independent but as they are at the same time high-ranking party members, party influence remains supreme.

During the presidency of Armando Guebuza, there was a centralization of power within the executive and dominance of the party in all state structures. It appears that FRELIMO is the state and the state is FRELIMO. The parliament could not question the president. These characteristics remain the same in Nyusi's presidency. This structure does not enable any formal institutional checks and balances.

The situation is worse within the judiciary. Its financial and material dependence on the government exacerbate the weakness of judiciary, and it does not provide necessary checks and balances.

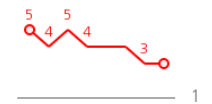
The independence of the judiciary in Mozambique is mainly tainted by the lack of separation of powers and political interference in the form of undue influences, inducements, pressures, threats or interferences, which occur directly or indirectly. Membership of the ruling party is a de facto prerequisite for access to the public administration and any career in the justice system.

The way investigations into politically motivated crimes are handled indicates that neither the prosecuting agencies, including the Attorney-General, nor the judiciary are independent and free from political influence. Particularly the Ministry of the Interior has a reputation for interfering in the course of justice.

Separation of powers

3

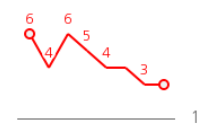
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Independent judiciary

3

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The latest example for the judiciary's weak autonomy is the proceedings of the Attorney-General in the hidden debt scandal. The former finance minister Manuel Chang got arrested at the end of 2018 in South Africa by an indictment from the United States, not from an arrest warrant by the Mozambican government.

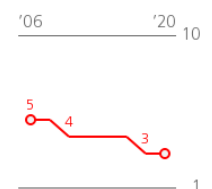
Impunity remains a serious problem in the judicial system. It is related to weak capacities but also to existing levels of political influence and corruption. Mozambique's judiciary has the reputation of being highly corrupt. Trials for minor crimes can usually be circumvented by bribing judges or judicial workers to favor the accused. Even people accused of major crimes, including those related to grand corruption and homicide, have been reported to have been released thanks to defendants' personal connections with judges or with the assistance of bribery.

Increasingly the independence of judges also comes under threat through the reigning climate of insecurity. As the president of the Mozambican Association of Judges (AMJ) stated in 2018, independent judges risk their lives by fulfilling their professional obligations. Impunity even relates to crimes enacted against the judiciary itself. Since the murder of Judge Dinis Silica, no culprit has been identified, nor has this been the case for the assassination of Prosecutor Marcelina Vilanculos.

Particularly with the hidden debt scandal and the inertia of the prosecutor to hold the culprits accountable, the image of Mozambique as a country where impunity reigns has been affirmed. The government accepted an independent and international audit on the hidden debts, but the stakeholders involved lacked any will of cooperation, an attitude that one could even call sabotage. The Prosecutor's Office started slowly with its investigations. In 2017, the prosecutor requested information from those states where the banks involved in the scandal have their headquarters. It also requested information from local banks on the bank accounts of former President Guebuza and 17 others. In the beginning of 2018, the Prosecutor's Office sent an indictment to the Administrative Court in order to hold those officials involved in the scandal to account. However, nobody on that list who is still in Mozambique got arrested. A court case against the president of the National Institute for Social Security (INSS) and the former president of the Confederation of Economic Associations of Mozambique was opened, as INSS money (€1.2 million) had been used to purchase four aircrafts. Neither the Administrative Council of INSS had been informed, nor had there been a proper trail of documentation on the INSS investment.

Prosecution of
office abuse

3



The conflict erupting again in 2013 between RENAMO and the FRELIMO government contributed to human rights violations on a large scale. Even when peace negotiations made positive progress, enforced disappearances and arbitrary arrests continued. According to the U.N. High Commissioner for Human Rights, at least 14 RENAMO officials were killed or abducted in 2016. The national human rights watchdog, Liga dos Direitos Humanos (LDH), even speaks of abduction and execution of at least 83 people in the provinces of Manica, Sofala, Tete and Zambézia by government security forces between November 2015 and December 2016. In all of these cases, the authorities have failed to investigate and do not provide family members with information in cases where relatives disappeared.

Increasingly human rights violations are reported in the context of mining operations, particularly in the ruby mines in Cabo Delgado. In an out-of-court settlement, the mining giant Gemfields accepted to pay 8.3 million dollars in compensation to victims of abuse by either the contracted private security company or the Mozambican police. 273 cases of torture, torture leading to death and other human rights violations had been reported.

For example, the assault on artisanal miners in the ruby mines in Namanhumbir and Montepuez/Cabo Delgado by security forces went viral on social media in 2018.

Serious human rights violations have occurred since October 2017 in the northern provinces of Cabo Delgado and Nampula. Civilians, some of them in very remote areas, are randomly killed by armed groups.

When coordinated and simultaneous attacks on government institutions including police headquarters in Mocímboa da Praia and Mugovola started in October 2017, the first allegations implicated the Islamic terror group al-Shabaab. In the meantime, it is not even clear whether these groups have any relations with international terrorist organizations. The motivation or ideology remains unclear. Almost on a daily basis, news about additional attacks and killings emerged. Although arrests relating to these crimes are also reported regularly, these have not had any impact so far. Currently, the Mozambican state fails to protect the life of its citizens.

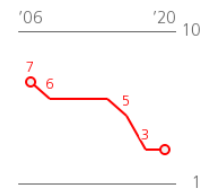
Arrests without solid grounds in combination with a lack of due and timely judicial processes contribute to the untenable situation of over-crowded prisons. The Attorney-General has expressed concern about prison overcrowding in the national prison system, with a capacity of 8,000 detainees currently holding over 18,000 inmates (highest since 2014).

The violation of women's rights, particularly in the domestic sphere, remains a problem.

The rights of people with albinism continue to be violated. Approximately 30,000 people reported discrimination and were ostracized. Many of them fear for their lives. Killings are often motivated by the myths that people with albinism have magical

Civil rights

3



powers and their body parts are useful for witchcraft. Most killings took place in the central and northern provinces (official figure of 13 for 2017).

With the new criminal code that came into law in 2015, homosexuality was decriminalized in Mozambique. However, the government – and despite of appeals by the U.N. Human Rights Council, still has not registered the country's largest lesbian, gay, bisexual, and transgender (LGBT) group, Lambda, as an NGO.

The most serious violations of civil rights however occur in the public and evidently intend to install a climate of intimidation and fear. Successive assassinations took place, which targeted public figures who investigated organized crime's ties with state institutions, showed a zero-tolerance approach to corruption or displayed a critical approach to the government. Academics, magistrates, politicians and journalists risk becoming a victim of those syndicates who have enough influence to get away with their crimes. Impunity and a climate of fear have become an element of political culture.

4 | Stability of Democratic Institutions

The existing democratic institutions have produced over the last years an adequate legal framework. However, the implementation of most regulations falls short of expectations. This is due to a lack of executive capacity or worse a lack of political will.

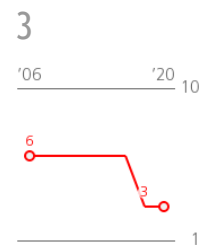
Public administration remains highly politicized and in the perception of most Mozambicans (63% based on Afrobarometer data), there is no difference between the state and FRELIMO as a party. The Public Administration Development and Reforms Strategy 2012 to 2025 that aims to bring the relationship between the state and citizen to a new level has not produced any change.

The National Assembly continues to be dominated by the ruling party, and so far, does not act as a counterbalance to an overwhelmingly dominant executive.

The recent public debt scandals show that the National Assembly has been continuously bypassed. There are still some individuals who positioned themselves above the democratic institutions.

To enhance the accountability of members of parliament to the electorate, the proportional system based on party lists would also need to be reformed. Currently, members of parliament mainly interact with their constituencies during an election campaign every five years but remain absent for the rest of the time.

Performance of democratic institutions



In this regard, one way to empower constituents would be to enable voters to elect a member of parliament rather than a political party. This means that the member of the parliament would be directly elected by a specific constituency.

The direct election of mayors of so-called autonomous cities (*autarquias*) has been abolished. Instead the mayor is elected via the party list as *primus inter pares*. In this context, it is less the political power of the people than of the respective party.

FRELIMO as the ruling party since independence has used the democratic framework, established after 1994, to foster its own interests. Democratic institutions are dominated and usurped by the party nomenklatura leaving little room for others. Under the presidency of Guebuza, power became increasingly concentrated in a small circle. The influence of this circle extended into business activities and the state security services, which enabled the circle to exert significant influence over the government. The hidden debt operations can be seen as one by-product of this institutional capture.

In the beginning of his presidency, President Nyusi largely lacked the political power within the party to re-install democratic accountability. However, this seems to change slowly and in light of the present crisis. The 11th Congress of FRELIMO in 2017 has dismantled Guebuza's grip and influence substantially and extended the Makonde support group of Nyusi. After the portfolio of defense went to the Makonde general Atanásio Salvador Mtumuke, Nyusi appointed another general from the Makonde ethnic group, Lagos Henriques Lidimo, as head of the secret service. The Makonde group in the FRELIMO Central Committee is growing. Also respected and high-ranking figures under President Chissano are coming back. The hard-core Guebuza backers have diminished tremendously, some shifting allegiances now as their former protector increasingly gets tainted by the hidden debt scandal.

In the past, FRELIMO's capture of the state led to the RENAMO's rejection of democratic institutions, as it considered the institutions instruments of FRELIMO's power. RENAMO has often boycotted local elections.

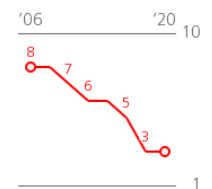
The latest electoral reforms, however, have produced institutions that are totally politicized from the top to the bottom. This calls into question the independence and efficiency of institutions such as the National Election Commission (CNE) and the Constitutional Council.

On a positive note, one also has to say that despite the conflictual relationship between FRELIMO and RENAMO, and with the pressure and assistance of the international community, it has been possible for both parties to agree to a compromise on the revision of decentralized structures and their mode of designation.

The new constitutional revision in May 2018 changes the election mode of the presidents of the municipalities to one that elects them indirectly via the party list. Governors and district administrators will not be appointed anymore by the central

Commitment to
democratic
institutions

3



government but will be chosen by the people. In the case of governors, the new system will already be applied at the general elections in October 2019. For the district administrators it will be introduced by 2024.

5 | Political and Social Integration

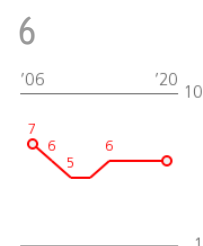
Mozambique introduced in 1992 a presidential, multiparty system to replace the one-party system that had prevailed since independence. Until 2009, the main characteristic of the party system has been its bipolar nature, with FRELIMO and RENAMO opposing each other. Between 1999 and 2009, the system was increasingly dominated by FRELIMO. In the 2009, presidential and parliamentary elections FRELIMO secured landslide victories. In the parliamentary election, FRELIMO won 75.06% of the vote and 191 seats. It seemed that RENAMO due its own auto-destructive attitudes had become increasingly marginalized. It was only able to win 17.88% of the vote and 51 seats in the 2009 parliamentary election.

However, the party landscape changed with the emergence of Democratic Movement of Mozambique (MDM) in 2009. MDM won eight parliamentary seats in the National Assembly in 2009. This was due to MDM's good performance in the municipalities that it was governing, such as Beira or Quelimane. In these cities' municipalities, MDM had demonstrated that it was able to deliver services to the people effectively, strengthening its potential. Therefore, it did not come as a surprise that MDM succeeded in the November 2013 local elections and benefited in addition from the boycott by RENAMO of the municipal elections. MDM became present in 51 out of 53 municipal councils and held the position of mayor in Beira, Nampula and Quelimane cities. MDM even managed to win a substantial number of seats in the municipal assembly of Maputo city, a well-established FRELIMO stronghold. In total, FRELIMO won 50 cities and MDM won 3 cities out of 53.

Important parameters for the state of the Mozambican party system changed in 2018. The sudden death of Afonso Dhlakama, who had led the party in a rather autocratic style for almost 40 years, brought about new and positive dynamics within RENAMO. The party under the interim leadership of Ossufo Momade attracted and welcomed back former members with political clout. The MDM mayor in Quelimane Manuel Araujo, who because of his popularity had been seen with suspicion and sidelined by the Simango brothers, crossed the floor. He stood and won as a RENAMO candidate in the local elections of 2018. Venancio Mondlane, former rapporteur of the MDM parliamentary group also crossed the floor and joined RENAMO.

During the party congress in January 2019, a new RENAMO leadership became elected for the first time in an open and transparent process in which four candidates contested the party presidency.

Party system



The 2018 local elections demonstrated again that the MDM of today is not able to capture frustrated FRELIMO voters to extend its base. The party had already lost the position of mayor in Nampula when the incumbent Mahamudu Amurane was murdered in 2017 and RENAMO won the position in a second-round vote, in which MDM had already opted to support the RENAMO candidate against FRELIMO.

Even though MDM is losing ground even at the local level, it plays an important role as an opposition party. Contrary to RENAMO, it does not have the legacy of being party to a civil war. Although it only managed to retain power in Beira, it has won seats in most of the municipal councils and can play a constructive role by providing an alternative voice of opposition. In some municipal councils, it can even tip the balance so that RENAMO can take over the council presidency.

For over a decade, during the presidency of Armando Guebuza, FRELIMO elite interest groups held the state and the economy hostage to their interests. For civil society and interest groups, it became extremely difficult to fulfill their representative mandates in the interest of their constituencies.

Particularly in the sociopolitical field, this has changed with a weaker government that has been constantly under political and economic pressure since coming into power in 2015.

Private sector organizations are becoming more vocal and critical of the government. For the Association of Touristic Operators (Associação de Agentes de Viagens e Operadores Turísticos de Moçambique, AVITUM), the security situation in the north is seen as an increasing problem for the sector. Although the atrocities are taking place in remote areas, it taints the reputation of the country and impacts business opportunities.

For the Mozambican Business Association, the mining and gas sector development are unique opportunities for Mozambican SMEs to adapt to the market and to operate in the context of a favorable local content policy by the government. In this regard, the Confederação das Associações Económicas de Moçambique (CTA) tries to hold government to account in order to provide such a conducive and much needed policy context.

Labor organizations in particular remain weak in terms of articulation of their members' interests. Especially in the current context of excessive natural resource exploitation, in which labor plays a strong role, one might expect to find much stronger organizations mediating between the interests of citizens, businesses and the state. But labor organizations remain silent, as they are still by and large dominated by the ruling party. Their lobby goals, however, also find their limits in the socioeconomic realities of the country. When the Constitutional Council declared the powers of the Ministry of Labor to expel foreign workers unconstitutional in 2017, the Confederation of Trade Unions, Confederação dos Sindicatos Independentes e

Interest groups

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'06 '20 10

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Livres de Moçambique (CONSILMO), complained as it saw an important protection mechanism for the local labor force removed.

According to the latest round of Afrobarometer survey data collected in August 2018 in Mozambique, it seems that Mozambicans are regaining confidence in the democratic process of their country. After two mandates of President Guebuza, disillusionment with democracy had been striking. Whereas in 2012/2013, 25% of those interviewed preferred democracy to an autocratic regime, only 9% of those interviewed in 2014/2015 preferred democracy. In 2018, with President Nyusi in its fourth year, the demand for democracy and rejection of authoritarian alternatives in Mozambique went up again to 21% but still is way below the African average of 42%. Overall, support for democracy had fallen from 63% in 2012/2013 to 45%. In 2018, the overall support to democracy went up again to 57%.

Equally, the support for a multiparty democracy and the rejection of a one-party system has slightly increased since 2015. 59% acknowledge the benefits and availability of political choices (57% in 2015; 60% in 2012; 43% in 2002).

Also, when asked whether they believe they live in a democracy, 35% of Mozambicans agreed, whereas only 16% acknowledged the democratic character of the system in 2015. Despite the increased positive perception in general, 46% of Mozambicans are not satisfied or not satisfied at all with the way the system works.

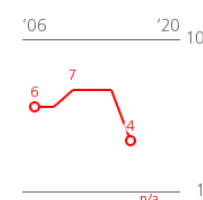
What is interesting is that Mozambicans increasingly see the role of opposition parties as a watchdog on the ruling party (36% according to 2015 data).

Although the government runs an ambitious social protection program (National Strategy for Basic Social Security 2016-2024), informal self-help networks are essential for the approximately 15 million Mozambicans living in extreme poverty. Self-help organizations are the key actors in coping with challenges such as natural disasters, HIV/AIDS, orphanage and rural to urban migration. Relations of social capital within the local and or religious community, the extended family, friends and neighbors are also in the context of the immense informal economy and the need for microfinance initiatives essential.

However, social capital, and with it the level of trust among the population, are under strain by a) an increased political polarization since the conflict between FRELIMO and RENAMO became virulent and violent again; and b) a deteriorating security situation in the northern provinces. Already during the civil war, a decline in social capital had been noted and documented in selected case studies. However, for the recent period of conflict and its impact on social capital no research is available.

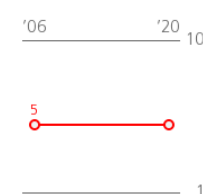
Approval of democracy

n/a



Social capital

5



II. Economic Transformation

6 | Level of Socioeconomic Development

A decade of growth rates between 7% to 8% did not initiate a structural transformation and industrialization of Mozambique's economy. It remains dependent on the exploration of natural resources and the agricultural sector. The latter contributes to 24% of the country's GDP and employs over 70% of the labor force. However, due to its subsistence character it is also one of the least productive agricultural sectors in the region. The agricultural sector remains extremely vulnerable to the multiple weather shocks experienced by Mozambique. Among African countries, Mozambique is one of the most affected by cyclones, droughts, floods and related epidemics. These extreme weather hazards are intensified by climate change. They enhance food insecurity with a decline of 25% to 30% in per capita food consumption. Currently about 7 million Mozambicans, roughly 25% of the population, are suffering from hunger or count as malnourished. The number of Mozambicans in need of food aid has increased tremendously between 2017 and 2018. The World Food Program provided assistance to over 815,000 people in need (320,000 in 2017) during the drought that affected the country in 2018. In 2017, 46.1% of Mozambicans were still living below the poverty line.

The country remains in the category of low human development, ranking 180 out of the 189 countries assessed in the Human Development Index. The human inequality coefficient for Mozambique is equal to 32.6% and above the average for Sub-Saharan African countries. The top 20% of the population hold 51.5% of the total income. Poverty is more widespread in rural areas, with 56.9% of the population considered as poor (49.6% in urban areas).

High public debt levels and shrinking economic growth rates (3.7% in 2017 according to the government) enhance the vulnerability of the population.

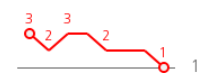
The unemployment rate remained at 22% in 2017, and youth unemployment remains high at 41.7%. Young Mozambicans mainly find jobs in the informal sector or in subsistence agriculture. Unemployment is also related to low education low levels. About 90% of school entrants do not speak the official language Portuguese.

Question
Score

Socioeconomic
barriers

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Economic indicators		2015	2016	2017	2018
GDP	\$ M	14798.4	10896.9	12651.9	14458.0
GDP growth	%	6.6	3.8	3.7	3.3
Inflation (CPI)	%	-	-	-	-
Unemployment	%	3.4	3.4	3.2	3.2
Foreign direct investment	% of GDP	26.1	28.7	18.3	18.5
Export growth	%	-1.2	9.4	25.4	4.5
Import growth	%	-6.7	3.7	-3.5	11.0
Current account balance	\$ M	-5967.9	-3846.0	-2585.5	-4362.1
Public debt	% of GDP	94.2	129.9	100.5	99.8
External debt	\$ M	13863.0	13850.8	15197.5	15217.6
Total debt service	\$ M	641.1	547.0	1364.1	818.7
Net lending/borrowing	% of GDP	-	-2.0	2.0	-
Tax revenue	% of GDP	21.9	22.2	23.2	-
Government consumption	% of GDP	26.7	28.3	25.5	29.3
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	0.4	2.7	-	-
R&D expenditure	% of GDP	0.3	-	-	-
Military expenditure	% of GDP	0.8	1.0	1.0	1.0

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Market based competition is enshrined in Art. 97 of the Mozambican constitution (Constituição de República de Moçambique, CRM 2004). The constitution allows for foreign investments except for those sectors that the state outlines as falling under its jurisdiction (Article 108 CRM). During the transformation from a centralized to a market economy, the Mozambican government adopted a number of initiatives to improve the environment for investment and promote competition. Significant progress has been made, but the state still plays a major role in the regulated sectors through public enterprises or through direct intervention in selected economic sectors, hampering the regulatory mechanisms of free-market forces.

In Mozambique, the informal sector remains dominant and has been increasing due to the economic crisis. Approximately 65% of GNP is generated by informal businesses. The formal sector accounts for only 32% of employment opportunities. Most people are self-employed (93%). Even the numbers for micro-enterprises (1-4 employees) and small enterprises (5-49 employees) remain very low at 6.6% and 0.7% respectively.

The investment potential of Mozambique remains high but the climate of doing business is still not conducive. Particularly for small- and medium-sized enterprises (SMEs), the overall bureaucracy becomes a burden. In the ease of doing business index, Mozambique ranks 135 out of 190. In establishing a business, it features even lower at 174. Also, the approval of credit and high interest rates take its toll, making it difficult for SMEs to access affordable financing and leaves the country on place 161. However, and particularly for foreign investors, the business culture of covering illicit activities with ordinary business activities constitutes a serious risk. Thus, due diligence assessments should be a precondition for any business activity.

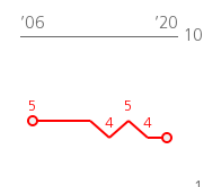
Mozambique passed a competition law (Law No. 10/2013) in 2013 and established a Competition Regulation Authority (ARC). The law provides Mozambique with a modern competition enforcement system and became operative with its implementing law regulation.

The new competition law applies to both private companies and state-owned enterprises and covers all productive economic activities in Mozambican territory. It prohibits agreements and practices that restrict competition horizontally (cartel building) and vertically (between companies and suppliers of customers). The law also prohibits abusive practices by dominant market actors. This includes, for example, the refusal to grant access to essential infrastructure and the unjustified termination of a business relationship.

The new law introduces merger control in Mozambique. Due to its slow implementation, no serious assessment of the impact of the law can be made. Until

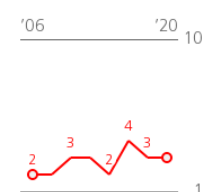
Market organization

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Competition policy

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2018, the government had not established a board for ARC. Nonetheless, in 2016, Mozambique signed a Memorandum of Understanding on inter-agency cooperation in competition policy, law and enforcement in the context of the Southern African Development Community (SADC).

In addition to ARC, the Mozambican parliament approved in May 2017 a new energy regulatory authority (ARENE), which replaced the National Electricity Council and wields considerably wider power to promote free competition in the energy sector. It approves prices and tariffs and can take measures against anti-competitive practices, or against abuses of dominant positions in the sector.

Mozambique's main objective in trade policy is to create an environment that is conducive to enhance the competitiveness of Mozambican products internationally and in the region.

In its recent reform processes, Mozambique has streamlined customs procedures to benefit foreign traders. The country's ratification and implementation of the Trade Facilitation Agreement in 2016 as well as the one-stop electronic window for customs transactions are elements facilitating trade. With regard to Mozambique's tariff regime, a lack of predictability is often cited as impediment.

Mozambique is a member of the SADC Free Trade area. 99.6% of duties for goods from SADC countries are at zero.

Although Mozambique has signed the EU-SADC Economic Partnership Agreement in 2016, it still has not ratified it. Mozambique already benefits from the "everything but arms" regime. Its limited export base and low level of manufactured goods constitute indirect barriers.

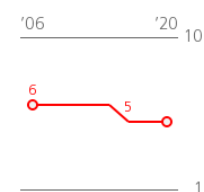
Taking into account the vulnerable structure of Mozambique's economy, the government remains reluctant with regard to the Tripartite Free Trade Area (TFTA) that aims to create a free trade area among the 26 member countries of SADC, COMESA and EAC.

Mozambique does not apply tariff quotas. Its Most Favored Nation tariff rates have remained unchanged over the last years. Its simple average tariff rate is on average 10%, with slightly higher simple average rates on agricultural products (13.4%) than on non-agricultural products (9.5%).

Nevertheless, the 2017 Doing Business Report ranks Mozambique 106 in trading across borders, up from 129 in 2016. But within the region Mozambique is ranked 37 out of 48 countries in the Sub-Saharan Africa region, and its overall score is below the world average.

Liberalization of
foreign trade

5



In comparison to the financial sector in neighboring countries, the banking sector in Mozambique remains underdeveloped. Albeit inroads can be noticed and by now about 36% of the citizens have a bank account (in South Africa 75%, Mauritius 85%). Already 44% use their mobile phones for financial transactions.

The volatile situation of the Mozambican banking sector remains an impediment in itself.

In 2018 the central bank as the regulating authority fined in a first round 15 banks, and later five financial institutions, for breach of the anti-money-laundering and terrorism financing laws. Allegedly the accused did not report suspicious transactions in 2016/2017 in time, did not do a client risk assessment or further control of transactions. The penalties amounted to nearly 2.5 million Euro. The central bank tries to exercise its supervisory role in order to adhere to international standards. However, it still lacks skilled staff in quantity as well as in quality.

At the same time, the Mozambican government whose rating in international markets is “junk” and who failed to honor its obligations of first payments under renegotiated bonds, relies increasingly on access to credit lines by private banks in Mozambique.

The Mozambican central bank had to take over the defunct Banco Moza in May 2017. Due to increasing servicing costs on public debt, the government’s ability to prop any failing banks is almost nonexistent and the central bank had to use its pension fund for re-capitalization. The country also faced conflict with the electronic banking service provider Bizfirst that led to the inoperability of ATM machines country wide for five days due to lack of payment of debits of 2 years.

Requirements on capital adequacy adhere to Basel II standards and the minimum capital adequacy ratio is at 8%.

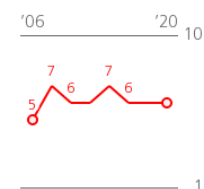
The Compulsory Reserves Coefficient – the amount of money that the commercial banks must deposit with the Bank of Mozambique – remains unchanged at 14% for local currency and 27% for foreign currency.

A KPMG study revealed in December 2017 that Mozambican banks still stand solid with few exceptions. The 16 banks investigated showed growth rates of about 26%. Their solvency rate featured at 18% (up from 17% in 2015 and largely exceeding the 7% required by Basel III) and the loan-to-deposit ratio was 82% (80% in 2015).

However, the environment for the banking sector remains challenging. Debtors are struggling to repay their loans. The KPMG study identified a worsened situation of non-performing loans across the entire credit portfolio, increasing from 4% to 6%.

Banking system

6



8 | Monetary and fiscal stability

The drop of Foreign Direct Investment (FDI), exacerbated by the disclosure of hidden debt in April 2016, forced the Mozambican central bank to tighten its monetary policy over the last two years. The inflation peaked in 2016 at 25%. This led to rise of cost of food and beverages, impacting people's everyday lives. In addition, foreign currency reserves had declined by 33% and the Metical devalued over 50% against the U.S. dollar. With a tight monetary policy, the central bank managed to stabilize the currency and its valuation to the U.S. dollar and brought down inflation. By doing so, it a) increased its lending facility rate from 9.5% to 23.5%; b) established a control system of foreign exchange outflows, and c) introduced a short-term interest rate (MIMO) that the central bank used on the interbank money market in order to regulate liquidity.

However, this tight monetary policy stance led in consequence to high real lending interest rates to private companies. In the financial market, SMEs were charged on average a one-year lending rate of around 30% that de facto left them without financing solutions. Credit to the private sector contracted by 12% in 2017. In addition, the government's need for enhanced domestic borrowing tripled and led to a crowding out effect. Instead of lending to Mozambican companies, banks use their money to buy high interest-bearing treasury bonds by the government.

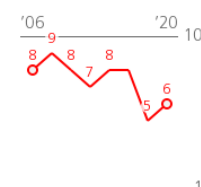
As a positive effect of this restrictive monetary policy, the annual inflation came down from 25% in 2016, to 15.3% in 2017. Inflation decreased further in 2018 to 4.6%, benefiting from a stronger Metical and foreign currency inflows from large coal exports starting end of 2016. Foreign currency reserves increased and seem to be sufficient to cover seven months of imports of goods and non-factor services, excluding the transactions of the foreign investment megaprojects.

The Metical traded stable over 2018 against the U.S. dollar (between 60 and 61 to the U.S. dollar) as well as against the South African Rand (4.27 and 4.57 to the Rand).

Public debt levels in 2018 were at 102.5% of GDP. This means that the fiscal capacity of the country is classified as extremely low with high monetary risks and no access to additional financing. External studies by rating agencies estimate for 2018 a budget deficit of 5.7%, which will further increase to 7.3% in 2019 (election year and start of the implementation of the new decentralized structures) and 7.8% in 2020. With slow economic growth, the debt levels might even increase until 2020 to 119% of GDP. As the government does not pay its bills, public utilities such as water and electricity hardly can keep up their services. Power cuts and water shortages have even been noticed in the capital.

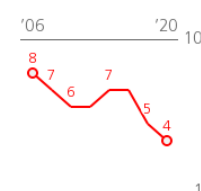
Monetary stability

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Fiscal stability

4



Many state companies are on the brink of bankruptcy as decades of corruption and mismanagement take its tolls.

This means that the government is setting up a Value Recovery Instrument (VRI) in which 5% of the government's revenues from the gas projects will flow. The interest on the bond of 5.875% will be paid partially in cash (4%) and the rest from the VRI. This solution does not come cheap for the Mozambican government. According to the anti-debt lobbying group, Jubilee, the original loan of 760 million will cost the state \$1.7 billion to \$2.2 billion.

However, arrears management and debt servicing are important factors in order to regain investors' confidence and to normalize relations with creditors.

9 | Private Property

In recent years, Mozambique's land and other natural resources have come under substantial pressure from foreign and domestic private investors. Particularly for agro-investors, Mozambique provides ideal conditions as a result of relatively low population density, good land availability and accessibility, as well as high potential agricultural productivity. Ownership of land remains the exclusive right of the state (Lei de Terras, 19/1997), but land-use concessions are given for periods of up to 50 years with the option to renew. Irrespective of the question of ownership, Mozambique's land governance system is sound. This allows for strong protection of community-based land rights, community consultation with respect to partnerships with investors, and secure rights to land for investors.

However, the situation on the ground is different. Only about 10% of the communities have registered property rights.

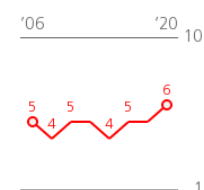
An ongoing conflict erupted years ago around the agricultural joint-venture project of Mozambique, Brazil and Japan called ProSavana, which looks into agro-industry potential in the Nacala corridor and that will stretch out over 14.5 million hectares. This project would affect over four million people in the area.

Initial protest by civil society and communities erupted as no consultations had taken place, and legal requirements for such a mega-project, as for example an environmental study, had not been adhered to. End of 2018 the Administrative Court of Maputo finally ordered the Ministry for Agriculture and Food Security to divulge all relevant information to civil society and affected communities. This mega-project has not moved beyond the phase of study and research.

However, as a recent study (July 2018) by the Global Land Alliance and ODI has shown, only 24% of Mozambicans feel tenure insecure. 70% feel that property rights in the country are protected and 83% feel confident that they get the support by authorities in case their rights are challenged.

Property rights

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So far, the legal and operational framework for multinationals and megaprojects are far more favorable in Mozambique than for the ordinary private sector company. Currently Mozambique's private sector is dominated by individual entrepreneurs (93%) and micro-enterprises (6.6%). Although FDI directed to SMEs creates far more employment than megaprojects, the number of SMEs remains insignificant (0.02% of enterprises, employing between 50 and 100 workers). In rhetoric the government supports SMEs, but very little is seen on the ground.

The privatization of former state-owned enterprises progresses slowly. According to the institute for state enterprises, Instituto de Gestão das Participações do Estado (IGEPE), about 50% of companies in the hand of the state or with state participation could be subject to privatization (in total 113). However, this task will not be easy due to the reluctance of foreign investors. Among the loss-making companies are the national carrier Mozambique Airlines, Mozambique Postal Services, Mozambique Public Bus Company, Mozambique Telecommunications (TDM) and Mozambique Cellular (MCEL). The latter two will be merged in order to make them more profitable.

10 | Welfare Regime

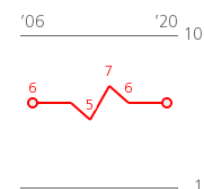
In 2016, parliament approved the National Basic Social Security Strategy 2016 to 2024. The strategy, based on the principles of solidarity, universality and equity aims to reinforce consumption, autonomy and resilience. Its approach shifts the focus from the family to the individual and also introduces a universal benefit for children under two years by 2024. All cash transfers together (including child benefits to 1.4 million children) would cost 2.23% of GNP in 2024.

The strategy emphasizes a rights-based approach and the dignity of its beneficiaries. The number of households covered under the main social protection programs in 2017 was 549,565. According to the strategy, cash payments to elderly and disabled people would rise 2018 by 84% and would amount to 0.32% of GDP. Although a total increase to 0.5% of GDP had been envisaged in the 2018 budget, it remains still below the average for the region.

In addition, what sounds advanced on paper, proves difficult in its implementation. The parameters for economic growth and the state of the treasury have changed since the strategy has been drafted. State coffers are empty.

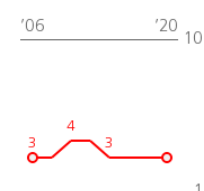
Private enterprise

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Social safety nets

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Article 66 of the Mozambican constitution prohibits discrimination based on race, sex, ethnic origin, place of birth, religion, educational level, social position and the legal status of parents or profession. Article 57 specifically addresses gender equality between men and women.

Legal frameworks in support of women have been put in place, awareness-raising campaigns have been launched and gender parity in education has become a prime objective.

With 39.2% of women in parliament, Mozambique has the fifth highest figure in Africa. One-third of the ministerial posts are held by women (7 out of 21) as are other high-ranking positions (e.g., Attorney-General). The unemployment rate for women (24.2%) is higher than for men (20.6%). Nevertheless, Mozambican women make up 41% of the work force.

However, besides of advancements on elite level Mozambique fares low on the overall gender inequality index (ranking 139 out of 159).

Mozambique has made substantial progress with 95.1% of girls enrolled on primary school level. Yet many abandon their education when they enter early marriages in which husbands often force their wives to stop going to school. 48% of Mozambican girls are married before they turn 18, 14% even earlier, before they are 15. These young women are not only deprived of the opportunity to continue their education, but are often exposed to violence and health risks as well. One-third of Mozambican girls are victims of physical violence after the age of 15. Moreover, the HIV infection rate for women is currently 15.4% (10.1% for men).

As basic education is crucial for women's empowerment, the lack of basic education for women reduces equal opportunities for Mozambican women. Access to finance remains a critical issue and hampers business opportunities for many women.

Mozambique remains a predominantly rural country, despite recent but slow urbanization. About 64.5% of the population still lives in rural areas. Although rural poverty has been reduced over the last decade, 53% of the rural population remains below the poverty line.

Equal opportunity

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11 | Economic Performance

Mozambique's economic situation remains in distress. Growth rates continued to fall from 7.4% in 2014, 6.3% in 2015 and 3.8% in 2016 to 3.3% in 2017 (lowest since 2000). Slow recovery seems to have set in, so that 2018 can be closed off with a GDP growth of 3.5%.

Fiscal strains and tight monetary policies led to decreased public investment. The government mainly trimmed public capital expenditure from 10.8% of GDP in 2015 to 8.8% in 2016 and 6.5% in 2017. Arrears of the government to the private sector have accumulated to approximately 5.5% of GDP, depriving these companies further of liquidity.

Foreign Direct Investment (FDI) decreased by 23%, mainly due to delays in the exploration of megaprojects in the gas sector and an overall economy in recession.

Agriculture and extractive industries have been the main drivers for economic growth in 2018. Agricultural output increased after the El Niño drought.

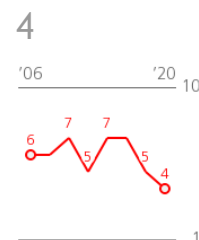
The fiscal deficit was an estimated 6.7% of GDP in 2018, up from 5.5% in 2017. Since the discovery of hidden debt in 2016, Mozambique has been in default mode.

In 2018, the current account deficit increased slightly to an estimated 23.1% (20.4% in 2017). This relates mainly to an increase of the trade deficit excluding the megaprojects such as the MOZAL aluminum smelter, the Temane gas projects in Inhambane, the Moma titanium ore and the heavy sands project in Nampula. Rising prices for key imports such as fuel and food as well as an increase of 24% of imports of goods led to an enhanced import spending in 2018.

International reserves are expected to cover 6 to 7 months of imports in 2018 to 2019.

Despite of growth rates above 7% for almost two decades, Mozambique remains a low-income country with a GDP per capita of \$460. Among African countries, it ranks 44 out of 54.

Output strength



12 | Sustainability

Mozambique is among the most the disaster-prone countries in the world and the second most geographically exposed in Africa. 25% of the population face a high mortality risk from the occurrence of natural disasters, such as floods, cyclones and drought.

The government has developed a legal framework for the management of natural resources and land that is favorable to the rights and needs of communities. In its five-year plan for 2015 to 2019, the government identifies the need for the sustainable and transparent management of the country's environment and natural resources. In addition, the government has developed over the years a set of policies (e.g., Action plan for a Green Economy; regulation on carbon emissions and deforestation, REDD+; national climate adaptation and mitigation strategy) and has taken action in order to generate revenues for environmental protection.

The relevance of tourism as a driver for Mozambique's economy is acknowledged by the government, including the president. 25% of the national territory has been declared a conservation area, grouped into seven national parks and 12 national reserves.

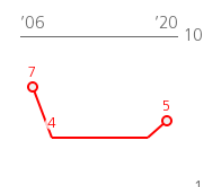
So far, only 27% of the country are connected to the electric grid, approximately 1.7 million households. They receive their electricity mainly from hydropower (95%).

In Mozambique, low education levels remain a major obstacle for employment and productivity. Despite current fiscal constraints, the government earmarked 5.9% of GDP in 2018 for expenditures in the education sector. For 2019, 21.5% of the state budget is dedicated to education. In this regard, Mozambique spends more than many other African countries on education. (The average public expenditure on education among African countries is 15.5% of the total state budget). Expenses have mainly increased in relation to the number of staff in the education sector, which has improved the teacher-pupil ratio. For 2019, 3,000 additional teachers are supposed to be recruited to teach the 1.5 million new primary students. 43% of all R&D investment goes into primary education while secondary education receives 21%, technical training 8%, and administration and institutional development 26%. Only 1% of the education budget is spent on training basic reading and writing, irrespective of the fact that half of Mozambique's population is illiterate.

Most children who complete primary school will not have the basic skills required to access future learning. Only 65.000 students received vocational skills training in 2015. Thus, Mozambique continues to face a serious skills gap, notably in technical skills. In consequence, Mozambique also has one of the lowest enrollment rates in tertiary education irrespective of the fact that the number of higher education

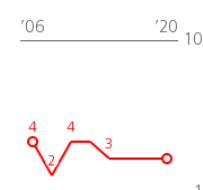
Environmental
policy

5



Education policy /
R&D

3



institutions (public and private) has grown from eight in the 1990s to 48 in 2018. Only 6% of secondary students move on to academic training (22% in South Africa).

The quality of tertiary education seems to be highly questionable. 12 institutes of tertiary education had to close when the ministry checked on their operating license.

Governance

I. Level of Difficulty

Despite its favorable geographical location and a long coastline with existing port facilities in the south (Maputo) and center (Beira and Nacala), Mozambique is only slowly transforming into an access point for landlocked neighboring countries such as Botswana, Malawi, Zambia and Zimbabwe. So far, the necessary infrastructure connecting the hinterland to the coast has been lacking.

On its own, the country had not been able to develop this infrastructure. It continues to rely on donors and investors who in their own interest develop the critical infrastructure, such as the Brazilian mining company VALE did with the Moatize-Nacala railway.

The focus remains on megaprojects that do not create employment opportunities for a low-skilled workforce. Only 15% of Mozambique's GDP are coming from the industrial sector, of which only one mega-project, the aluminum smelter MOZAL, already constitutes 40%.

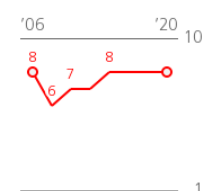
Adverse weather events again and again reverse Mozambique's developmental gains. Recurrent floods almost on an annual basis impact on and destroy significant parts of the country's infrastructure.

Besides a chronic lack of funds (for 2018/2019 only €2.9 million are available), the country lacks the early warning mechanisms for natural disasters. So far, it failed to incorporate resilience strategies into the economic and social plans and would also need to build in such a resilience component into the National Strategy for Infrastructure.

HIV/AIDS remains one of the main obstacles to Mozambique's development. According to official government figures the prevalence rate has been in 2017 13.2%, with the Southern provinces Maputo and Gaza most affected (24.4%).

Structural
constraints

8



Civil society is growing and becoming more vocal and critical in the last years.

There are three groups. The largest group consists of community-based organizations, which in general have weak organizational capacities and a constant lack of funding. They often provide essential services in places where state structures remain absent or lack capacity. A second group can be characterized as issue-based (e.g., health, climate change, poverty reduction) and is also mainly service oriented.

In the urban sphere and mainly in Maputo, there is a third group of elite-based, academically oriented organizations. They are interlocutors for many donors and enjoy international support.

These organizations organize themselves around platforms to hold government to account and uphold citizen rights. Particularly this segment of civil society seems to have become more vocal and outspoken during the term of President Nyusi.

The dominance of the government seems to crumble in the light of political conflict, security problems and an unsustainable debt burden.

The low-intensity warfare in 2013 between RENAMO militants and government forces came to a halt mid-2017 when RENAMO leader, Afonso Dhlakama declared a truce without deadline. Since then, peace negotiations became constructive and results-oriented. The death of Dhlakama, who had personally conducted the negotiations, did not change the tone. Concessions have been made on the political and military front. It seems that both political leaders, President Nyusi and RENAMO leader Ossufo Momade, have the political will to move forward and to re-establish peace. But both parties have hardliner and militants in their ranks who still might be able to spoil the process. Disarmament of RENAMO fighters remains a sensitive point.

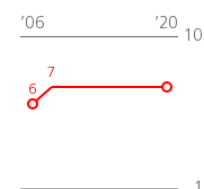
Atrocities of this latest conflict have mainly been attributed to government forces. So far, it is only civil society demanding that perpetrators are held to account and to end impunity. Should RENAMO embark on a similar rhetoric it could close the much-needed space for dialog.

The intimidations that occurred during and after the local elections in 2018 also demonstrate that forces within FRELIMO who are not willing to concede space to the political opponent are still present. In this regard, the general elections in 2019 will become a litmus test for the stability of the peace process and the level of tolerance prevailing in a society that has been dominated by FRELIMO for decades. For the opposition it will be easy to mobilize support considering the devastating economic situation for which the self-enriching FRELIMO elites have to take the blame.

Whereas the conflict between FRELIMO and RENAMO never has been based much on ethnic or religious cleavages, it seems that the Islamist insurgents spreading terror and violence in Cabo Delgado might bring a religious connotation to this emerging conflict.

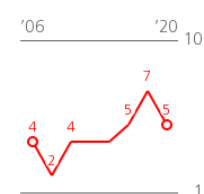
Civil society traditions

7



Conflict intensity

5



II. Governance Performance

14 | Steering Capability

For decades, the FRELIMO government enjoyed and still enjoys the privileged position that it is hardly challenged by elections. Its dominance could have provided the political space to turn Mozambique into a developed state as other African regimes succeeded in, such as the EPRDF in Ethiopia.

However, during the years of the resource boom when growth rates were up to 7% to 10%, the Mozambican government missed the opportunity. Instead of designing an industrialization strategy that would have developed the SME sector and created formal employment opportunities, it bet on extractive megaprojects. It discarded all rules of prudent revenue management and engaged in dubious projects for which secret loans were taken out with government backing and that mortgage the country's natural wealth. FRELIMO elites indebted future generations of Mozambicans and continue to do so.

In addition, the government did not succeed in assessing priorities and trade-offs in the composition of investment.

As various law projects over the last couple of years have shown, the government often lacks a coherent approach to harmonize new laws with existing ones. Although two key priorities of the government have been economic diversification and job creation, the approach to local content policies necessary for promoting SMEs in the extractive industry sector remains weak.

In addition, the government is not consistent in its strategies for the social sector. For example, the strategy for primary education has been changing in a very short period of time and whenever a new minister is appointed.

Mozambique adheres to Agenda 2030 and has been a signatory of the Millennium Declaration. It implemented the Millennium Development Goals through its National Economic and Social Development Plans. Despite average growth rates of 7.5% in the period when MDGs were set, the government lagged far behind in the implementation and achievement. Eradication of extreme poverty had been a key priority. Here Mozambique remains miles away from succeeding.

An analysis of the government's education policy – albeit a declared government priority – shows disappointing results. Tertiary education and vocational training remain a challenge. 23% of the state budget are reserved for education. With the addition of roughly 8,000 teachers every year to the already 145,000 teachers, 94% of the budget is spent on wages.

Question
Score

Prioritization

5

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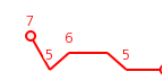


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Implementation

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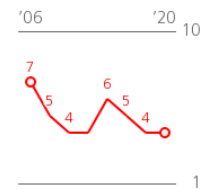
When President Nyusi's government started in 2015, it lacked independence due to interference of previous government members.

Instead of cultivating a new culture of transparency, President Nyusi continued with the secretive attitude and non-disclosure of vital information that also had characterized the previous government. It seemed that the FRELIMO approach to the scandal is to ride it out until the staff turnaround in the international community has made it a subject of the past, provide propaganda camouflaging the real state of affairs and continue business as usual. In that sense, a twisted key aspect of policy learning seems to have been to keep a self-conscious posture, even if the reputation with investors and bondholders is very low.

With regard to conflict resolution, it seems that the government has realized that an uncompromising position and the execution of violence when challenged by dissent does not resolve the core problems. It discontinued its hardline approach and started to make concessions for the sake of peace and stability.

Policy learning

4



15 | Resource Efficiency

Currently, Mozambique neither has a balanced state budget nor a manageable level of debt. To the contrary, the country has defaulted in servicing its debt obligations. The independent audit into the hidden debt scandal has been met with a rejectionist attitude. The opposition continuously rejects the state budget presented in parliament. Together with civil society, it has taken on the position that the loans taken out illegally by government officials and that never had been approved by parliament should not be paid back by the government.

The government, however, has already started to turn one of the loans (EMATUM) into a bond and intends to pay by using the revenues from the liquefied natural gas (LNG) projects in the Rovuma Basin off the coast of the northern province of Cabo Delgado.

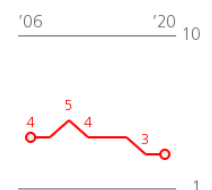
This implies that even before any LNG has been explored, the revenues are already committed to pay off the illegal debts incurred under the presidency of Guebuza.

According to calculations done by civil society, the loan of \$850 million will cost the Mozambican state in the end about \$2.4 billion.

Although, at the beginning of his presidency, Nyusi intended to break from the networks of his predecessor, Nyusi is not free from buying support in order to assert his authority.

Efficient use of assets

3



President Nyusi proclaimed at the beginning of his term that agriculture and rural development would be his government's budget priorities. This has been reiterated by prime minister de Rosario while presenting the 2019 budget to parliament.

However, the bulk of the budget goes to health (10.6%), education (21.5%) and infrastructure (13.5%): 45.6%. For agriculture, 11% are reserved. 10.2% are allocated to expenditures in the security sector and the president's office. Since 2017, the budget deficit (4.6% of GDP) has almost doubled and is forecasted at 8.9% of GDP in 2019. Debt service has also gone up from 4.6% of GDP in 2017 to 6.6% in 2019. Looking at the 2019 state budget it becomes obvious that the government tries to make ends meet. As donor assistance and access to the private capital market are still unknown variables, it will become extremely difficult for the government to balance its targets and conflicting objectives.

When it comes to monetary and fiscal stability, it also becomes clear that the Ministry of Finance and the governor of the central bank are not always sharing the same objectives. For the latter the lack of fiscal prudence within the Ministry of Finance remains a serious concern.

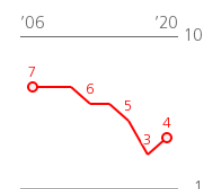
During the presidency of Armando Guebuza, corruption became deeply engrained in the system, when approximately \$900 million went unaccounted for. Massive kickbacks for infrastructure projects were the order of the day. As the previous government had been part of the problem, and political office bearers the main beneficiaries of highly corrupt and fraudulent activities, government efforts to contain corruption were superficial.

President Nyusi openly advocates in his speeches zero tolerance for corruption. However, until the end of 2018 it seemed that mainly middle- and low-level administrative corruption had been targeted. The revelations by the main anti-corruption institution, the Gabinete Central de Combate à Corrupção (GCCC) are impressive. Within three months in 2017, the state lost €5 million due to deviation of public funds. In the first half of 2018, the loss mounted to €3.7 million. Most of the culprits are public servants who establish fake enterprises or take care that companies of family members are awarded with a contract. The lack of consciousness or widespread culture of nepotism could also be seen in September 2018, when President Nyusi distributed 90,000 school bags that had been fabricated by a company owned by his daughter.

With the Centro de Integridade Publica de Moçambique, civil society has an effective watchdog but who also depends on the information provided by government. If, for example, government does not disclose what is included in financial figures provided and important assets or obligations do not feature, it becomes difficult for a watchdog to track licit and illicit financial flows.

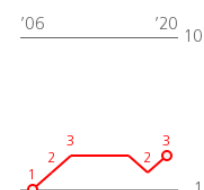
Policy coordination

4



Anti-corruption policy

3



The worst example of how Mozambique's kleptocratic elite has been abusing its powers, however, is the hidden debt scandal. In 2013 (see BTI 2016), EMATUM, a tuna fishing company, issued an \$850 million bond guaranteed by the government.

16 | Consensus-Building

Although President Nyusi started off with a reformist aura and had gained substantial support in the first months of his presidency, trust and confidence in his democratic disposition and capacity to pursue democratic reforms received a serious blow with the hidden debt scandal. For two years, it seemed that despite donor pressure impunity would reign.

Certainly, democracy is part of the donor canon and therefore will continue to be part of the government's rhetoric. The increased influence of state security services that started during the Presidency of Guebuza and got an additional drive with the violent conflict with RENAMO has been worrying. However, with the changes at the top, which Nyusi finally managed to execute, the state within the state could be slowly dismantled.

However, impunity for high-level corruption, and politically motivated assassinations and violence call into question whether the main political actors still agree on a political system based on democratic values.

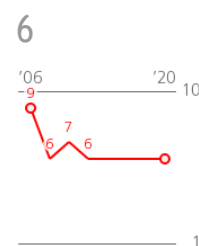
The focus of the governing elite remains on promoting the interests of Mozambican businesses, many of which are in the hands of the FRELIMO. Market-economic principles are endorsed by all political actors, including the opposition, but used to their own advantage.

FRELIMO has a highly secretive and centralized organizational culture. Considerable importance is placed on following the instructions of the hierarchy, as repeated purges of party members who have failed to follow orders have demonstrated. Governmental positions are no guarantee against marginalization within the party and, without party support, those in power cannot last. Party discipline serves as the primary guide to behavior.

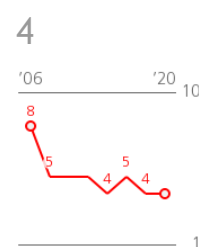
It took President Nyusi about two years to establish his own power base and to dismantle the influence of his predecessor. The system Guebuza established for the redistribution of rent-seeking opportunities and intimidation had extended long beyond his official position of power. The "with us or against us" mindset had created a tendency to use inclusion (to party and economic benefits) or exclusion as strategies for control.

Whether the people he has surrounded himself with will foster a democratic agenda cannot be confirmed for the time being.

Consensus on goals



Anti-democratic actors



When Afonso Dhlakama reverted to arms in 2013, he not only called into question the 1992 peace accords, but also derailed a democratization process that during the presidency of Guebuza hardly could be called as such.

Ahead of the 2019 general elections, the peace process appears to be stable. However, as electoral processes always carry a destabilizing element, it cannot be excluded that anti-democratic actors might gain influence within their parties when they risk losing access to power and resources.

FRELIMO was initially created as a national liberation movement. RENAMO drew its support mainly from the social and political cleavages within FRELIMO during the struggle for independence, while following some nationalist framework. After the war, these war-induced cleavages became a driving force behind the development of Mozambique's two-party system, manifesting as south versus center, the ethnic Shangaan versus the Ndaou, and the centralized socialist state versus traditional rural authorities. Yet, though these cleavages played out in the party system, they were never institutionalized in the post-war political structure.

The government has also managed to come to grips with the center vs. periphery, traditional-rural vs. modern-urban divide.

For two decades, the ruling FRELIMO party and its political leadership were able to draw their legitimacy from their history as a liberation movement, and as the figures that brought peace to the country after decades of civil war. Still, in the 2009 elections FRELIMO was able to mobilize large segments of society from left to right, making it difficult for the opposition to exploit existing and newly developing cleavages. Following the two mandates of President Guebuza, cleavages within society have deepened. Those who previously would not have openly aligned themselves with opposition parties feel inclined to do so today.

President Nyusi has demonstrated in the peace negotiations with RENAMO that he remains committed to peace and aims to create a culture of tolerance for differing political opinions.

With regard to the violent terror spread by Islamist groups in Cabo Delgado, the government so far has not shown much predisposition to engage and to address the alienation from society of these groups. Here, more political engagement is urgently needed.

Cleavage /
conflict
management

5



Although an ongoing dialog between policymakers and civil society does exist, it cannot be considered strong, frank or open.

By invitation from the government the following formats have been established: the Open and Inclusive Presidency (PAI), which was a presidential initiative of Guebuza promoting the evaluation and consultation on the performance of district governmental institutions; Development Observatory (OD) for the process of drafting and monitoring the poverty reduction strategy papers; as well as institutions for community participation and consultation (IPCCs), which are community participation mechanisms at the district level, composed of local councils, local committees and local forums.

Civil society's involvement in defining the priorities of the Poverty Reduction Action Plans has been a government-led process. To support monitoring, the government established the Observatório do Desenvolvimento (OD), where CSOs have the opportunity to present independent reports. Civil society groups also have the ability to participate in the joint revision conducted every year by donors that support the state budget and the government. In this case, CSOs can observe, although intervention is possible only by working through the donors.

In general, the efficacy and viability of consultative councils and development observatories remains limited. Also, the engagement of civil society with parliament, and provincial and municipal assemblies is weak. Access to information, untimely notification of meetings, politicization of the dialog, and the weak representation of communities in consultative councils are striking weaknesses of the consultative structures.

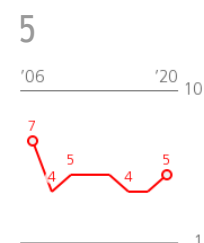
In the peace negotiations between the government and RENAMO, civil society groups were allowed after they had placed their request (e.g., parlamento juvenil).

After the Rome peace accords, Mozambique missed the opportunity to develop a culture of reconciliation. No official structure such as a Truth, Justice and Reconciliation Commission had been created, nor were war atrocities addressed through other channels. RENAMO militants integrated in the defense forces or police had to face discrimination and encountered various obstacles along their career paths.

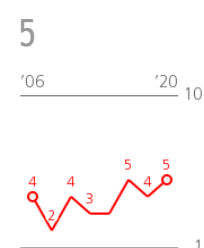
In addition, the political attitude of President Guebuza also impeded any dialog with political leaders of the opposition. Whereas Joaquim Chissano had entertained regular meetings with Afonso Dhlakama, this habit stopped under his successor.

It was only under the pressure of RENAMO violence that the Council of Ministers in November 2014 approved the law to establish the Fund for Peace and National Reconciliation (Fundo de Paz e Reconciliação Nacional). This fund provides \$10 million per year to finance socioeconomic projects targeting demobilized soldiers and veterans of the armed struggle. In recent months and with advances in the negotiations between FRELIMO and RENAMO, President Nyusi has underlined the

Civil society participation



Reconciliation



importance of dialog and tolerance, highlighting that a lasting peace needs more than formal agreements but has to create a culture of dialog and acceptance of differences. Whether this endeavor will succeed this time and whether the grievances of the military wing of RENAMO can be satisfied will show in time.

However, reconciliation and reconstruction of society along democratic values must address the question of impunity with regard to violence, corruption and self-enrichment.

17 | International Cooperation

In most policy fields, Mozambique has developed strategies and action plans satisfying donor obligations. Shortfalls are first and foremost in the implementation. This phenomenon does not go unnoticed by donors, and many of them were already getting tired of the words without deeds. This sentiment among the donor community certainly became aggravated by the approach the government has shown to the fiscal crisis.

The hazardous approach to the hidden debt scandal and its investigation process, however, demonstrates that the government places the protection of its own interests and cadres involved in the scandal above the development of the country for which it desperately needs the support of the international donor community. Mozambique continues to rely heavily on foreign aid, which amounts to approximately 25% of its \$4.92 billion state budget.

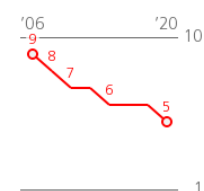
The way Nyusi's government handles the economic crisis and the secret loans scandal has totally discredited his presidency and government. In the midst of the fiscal crisis, a Canadair Challenger private jet had been acquired for \$9.2 million in 2017 that is mainly for the exclusive use of President Nyusi. It seems that the government is in complete denial mode, racking up additional domestic debt that already ranged at 20% of the GDP at the end of 2018.

The three para-state enterprises under investigation - EMATUM, Proindicus and Mozambique Asset Management - did not provide the key documentation requested by auditing company Kroll. According to the Kroll audit, about \$713 million remains unaccounted for comparing prices paid and market value of goods and services. The government did not provide information on how the money had been spent and did not go after those key stakeholders who participated in the scandal. The chief executive officer of the three companies, António Carlos do Rosario, a high-ranking intelligence officer, was only suspended from service – nothing else. In addition, the government hardly manages to cut its spending and embarks on excessive domestic borrowing.

In consequence, the IMF and other donors withhold their support to the Mozambican government. The European Union keeps suspended €300 million and channels the money into other projects. Japan also suspended any funds (average of \$120-140 million per year) for Mozambique.

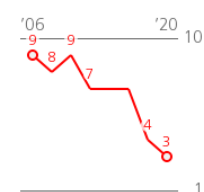
Effective use of support

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Credibility

3



Cooperative relations with neighboring countries are essential for the development of Mozambique. Particularly the corridors linking Mozambique's landlocked neighbors to the seaports intensify relations and cross-border trade. Therefore, the government has made infrastructure development one of its priorities.

Relations are particularly close with South Africa on an economic and political level. Over 70 bilateral agreements exist between the two countries. Due to the dominance of South Africa, Mozambique has to safeguard cautiously its own national interests while at the same time taking advantage of the benefits of close cooperation in areas such as energy, railways, seaports and tourism. Megaprojects related to the energy sector (such as the Mphanda Nkuwa Dam, Cahora Bassa and the establishment of a high voltage line between Tete and South Africa) all depend on the commitment of and demand from South Africa. Mozambique also relies on South African investors in the commercial field. Over 300 South African enterprises currently operate in Mozambique generating employment opportunities and revenues for the state. Both countries would like to see advances in SADCs regional economic integration via the implementation of the SADC industrialization strategy. Equally, they place their hopes on the African Continental Free Trade Agreement and encourage their peers to sign and ratify it. Mozambique also supports South Africa's aspirations for U.N. Security Council reform, which should better represent the interests of developing countries.

For Zimbabwe, Mozambique is not only an important trading partner but also the access point to the sea via the port of Beira. In the energy sector, Zimbabwe relies on Mozambique's supply and would like to intensify cooperation in this sector. As Zimbabwe's access to capital markets is blocked due to arrears of \$2.4 billion, it also turned to the Mozambican central bank beginning of 2019 for a loan of \$25 million.

With Tanzania, the long-standing close relations further intensified with the abolition of visa obligations for citizens of both countries in 2015. In its fight against violent Islamist insurgents in Cabo Delgado, Mozambique receives support from Tanzania. In October 2018, joint operations were conducted and over 100 suspects were arrested as they had been planning to establish bases on Mozambican territory.

Mozambique shares its longest border with Malawi, although relations between the two countries have not always been conflict-free. The navigation of the rivers Zambezi and Chire had been at the center of bilateral disputes and Mozambique refused to authorize Malawi's plan to build a port. However, since 2012, relations have improved and deeper bilateral cooperation can be noted. In 2017, the two countries signed an agreement for the construction of a railway corridor entering Malawian territory that would connect the coal mines in Tete to the port in Nacala.

Regional cooperation

9



1

Strategic Outlook

The main challenges for Mozambique over the forthcoming months will be:

- Restoring donor confidence.

The way in which the government and implicated entities handled the independent audit further aggravated the donor community and destroyed its reputation further. To get some emergency funding program, it will be essential that the government provide the information that is still missing and has been requested by auditors and donors alike. It also implies that investigations by the Attorney-General are intensified, not only to respond to the pressure from external actors such as U.S. courts. Finally, it will be important that the people responsible for the shady deals are held accountable irrespective of their current or former positions within government.

- Restoring public confidence in the government.

The hidden debt scandal and the way in which the government addressed it has alienated large segments of society. Many still think that the government should not have recognized the provided state guarantees as they had been given illegally and without approval of parliament. In addition, the large-scale impunity that had become symptomatic for many years distances citizens from the system.

This impunity also relates to the murders and violations of critical voices of society. A climate of fear and intimidation exists and the role of state security services either directly or indirectly is not always clear.

- Ending the culture of impunity and corruption endemic in politics.

It seems that the political consent has been given to the judiciary to investigate certain cases – in part to show-off for donors. However, the judiciary remains under political influence. In order to enhance its independence, the judiciary's capacities as well as its protection mechanisms need to be enhanced.

- Consolidating peace and reconciliation with the political opposition

Although a political consensus on further decentralization, as well as on disarmament, demobilization and integration has been found, the character of its implementation will be crucial for peace and stability in Mozambique. Particularly the integration of RENAMO militants into the Defense Forces cannot remain on a technical level, but needs to be supported politically with a lot of good will from both sides.

Reconciliation will also need more than just academic conferences. Reconciliation preconditions platforms for dialog on an equal basis and the willingness for concessions. But first and foremost,

reconciliation also necessitates a political culture ahead and during the electoral period that is free of intimidations and violence and allows establishing a level playing field.

- Establishing an inclusive political process

A more inclusive political process is not only necessary for peace and stability. Transparency and inclusiveness on the national and local level are essential to have sustainable natural resource management. However, in both aspects the current government falls short.

- Re-establishing trust into Mozambique's democratic process

Only transparent and fair general elections, which are neither characterized by fraud or violence, can improve public trust in and enhance the legitimacy of the currently discredited electoral process. How complaints are dealt with by the judiciary is also important for the credibility of the electoral process and the acceptance of results by the opposition.

- Tackling the root causes of violence in Cabo Delgado.
- Enhancing investor confidence in and attractiveness of the economy.

This will involve reducing bureaucratic requirements for establishing and managing a business, while finding a balance between promoting a conducive investment environment and generating government revenue.

- Addressing the fiscal challenges and re-structuring of government debt.

A sustainable restructuring of public debt without mortgaging future revenues will only be possible with the assistance of the international donor community. After having defaulted on its debt services, any restructuring of private debt comes with a price that the country in fact cannot afford.

- Transforming Mozambique's economy

For the time being, Mozambique relies on extractive industries and megaprojects for its economic development, of which the liquid gas sector still is in its prospecting phase. Nevertheless, the country needs to develop viable economic policies that promote economic diversification, realistic local content policies that can promote the private sector and SME engagement, and above all create employment opportunities.

- Adapting its monetary policies

Currently the private sector is de facto cut off from financing due to continuously high interest rates. The increasing public domestic debt crowds-out local enterprises and strangles the national economy.