

# BTI 2010 | Mozambique Country Report

<b>Status Index</b>	1-10	<b>5.71</b>	# 64 of 128	
Democracy	1-10	<b>6.35</b>	# 50 of 128	➔
Market Economy	1-10	<b>5.07</b>	# 79 of 128	↗
<b>Management Index</b>	1-10	<b>5.55</b>	# 51 of 128	

scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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## Key Indicators

Population	mn.	21.4	HDI	0.40	GDP p.c.	\$	801
Pop. growth	% p.a.	1.9	HDI rank of 182	172	Gini Index		47.1
Life expectancy	years	42	UN Education Index	0.48	Poverty <sup>2</sup>	%	90.0
Urban population	%	36.1	Gender equality <sup>1</sup>	-	Aid per capita	\$	83.1

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

## Executive Summary

President Armando Guebuza has further consolidated his power during the reporting period. In the November 2008 local elections, his ruling Frelimo party won 42 out of 43 towns. In 2009, he was overwhelmingly nominated again as his party's presidential candidate for the October elections. The only opposition party in parliament, Renamo, lost all five towns it had controlled and, with them, the opportunity to demonstrate its capability to govern. The autocratic behavior and political unpredictability of opposition leader Afonso Dhlakama reached a climax in 2008 and led to the foundation of a new opposition party, the Democratic Movement for Mozambique (MDM). This party has the chance to become much more influential than the other 50 splinter parties. Prospects are high, however, for a landslide victory for Frelimo in the upcoming general elections, which could result in the party gaining a two-thirds majority in parliament. In order to prevent this, voters would have to perceive a viable political alternative and overcome their apathy.

The omnipresence of the ruling Frelimo party, which claims "to be the entire people" and the "legitimate representative" of the people's aspirations, has caused a concomitant rise in popular expectations with regard to the central government. The government, however, has not matched its social programs with its lofty rhetoric. This public disappointment manifested itself in a social eruption in February 2008, which took the executive by surprise. People's readiness to demonstrate or take justice into their own hands is growing. The police, judiciary and state administration have little credibility.

The government continues to concentrate on mega-industries and agro-industries. It fails to develop an inwardly directed national development policy, which would promote small and medium-sized enterprises, the informal sector, rural areas, and professional training. Mozambique's high macroeconomic growth rate only distorts the real situation: poverty remains above 50% and only a small elite is accumulating wealth. The Mozambican economic model produces "growth without development."

Dependency on foreign donors continued at a slightly higher level during this review period and will become even more important in times of volatile worldwide financial markets. The government managed to satisfy the majority of the criteria that it established with foreign donors in the policy dialogue for the yearly common performance evaluation. The problem areas are the same as in past years: reform of the judiciary, fighting corruption, transparency of government activities and decentralization.

## History and Characteristics of Transformation

From independence in 1975 to 1994, politics in Mozambique was the politics of the Frelimo party (Liberation Front of Mozambique). The leaders of Frelimo's military campaign rapidly established a one-party state allied to the Soviet bloc. The party used its organizational network to control the newly created mass organizations and emerging institutions of civil society. Under the total control of the Frelimo party, the state took over private enterprises and initiated a collectivization strategy for rural areas. The media became mouthpieces for the party line. In the political arena, Frelimo likewise dominated. It excluded all party competition and refused to allow the electorate to choose its representatives. The legislative organs did not have genuine control over legislation. By their nature, they could only rubberstamp party decisions. The executive and judicial organs were, for all practical purposes, under the direct control of the party bureaucracy. The majority of the people had very few levers with which to determine the course of economic or social life.

Until November 1990, Mozambique was officially a socialist one-party state. At the end of the 1980s, Frelimo realized that the socialist model had failed. It abandoned its Marxist-Leninist vision and adopted a more liberal approach of governance. The government began to introduce economic and political reforms aimed at transforming Mozambique into a more pluralistic society. In November 1990, this culminated in the enactment of a new constitution, which created a multiparty political system with free elections and a market-based economy.

While the ruling party (Frelimo) and the opposition agreed on the specifics of a political transition to multiparty democracy in the October 1992 Rome General Peace Agreement, the party in power always controlled the political process. It succeeded in pushing through its own constitution and kept the relevant institutions under its control. It also dominated at the ballot, winning the presidential and parliamentary elections in 1994, 1999 and 2004 as well as the local government elections in 1998, 2003 and 2008. Conversely, the main opposition party Renamo (National Resistance Movement of Mozambique), has been slowly dismantling itself. The party was closest to electoral victory in 1999, and observers noted that fraud before, during and after the elections might have secured Frelimo's eventual win. Renamo is now no longer capable of mobilizing sufficient support. In the 2004 elections, its electoral results declined in all provinces, even in its strongholds, because of low voter turnout. Since its beginnings as a political party in

1994, Renamo failed to invest in its structure or to build up a professional and respected shadow cabinet made up of a broad range of personalities who could have earned the party credibility. The autocratic behavior of the party president before the local elections in 2008 could mark the final phase of the party's deterioration.

Mozambique went through a remarkable recovery phase after its leadership signed the Rome General Peace Agreement. As stability was restored and the country moved towards a market economy, investment returned. Mozambique became one of the fastest growing economies in the world, albeit from a low base. Today the macro-economic outlook is still favorable and the country's real GDP growth is expected to remain high, having averaged 7% per year between 2001 and 2008. This trend has been strongly supported by the international donor community, which made Mozambique an example for innovations in development cooperation and debt relief. The country receives the highest amount of development aid per capita in southern Africa.

## Transformation Status

### I. Democracy

#### 1 | Stateness

During the past two years, two major developments have highlighted the state's incapacity to restore public security. First, the crime rate increased in the big cities, particularly in Maputo. Incidents of carjacking, killing of top police officials, armed robberies, assaults at ATMs, home invasions and scams have become regular occurrences. While most of these crimes are committed by Mozambicans, the country's criminal groups and networks are not confined to Mozambique. They extend to other countries including Portugal, Brazil, Pakistan, the United Arab Emirates, Dubai and South Africa. Among the more prominent of these groups are those linked to drug trafficking, money laundering, trafficking in human organs, stolen motor vehicles, illegal firearms and the obstruction of justice. State officials, including the minister of the interior, have publically recognized that these organized crime networks have links to police cadres and even to politically well-connected persons. Reports about Mozambique's role as a drug distribution center became more frequent in 2008. Another disturbing factor was the third successful escape from a high security prison of the convict Anibalzinho, co-author of the murder of journalist Carlos Cardoso. This was proof for many that the convicted murderer has protection from above.

Monopoly on the use of force

The second development relates to the increasing practice of lynching, which poor citizens use to enact vigilante justice. The need for such non-state justice, especially in the southern and central provinces, is the result of the weakness of the institutions fighting organized crime and the strong links between criminal groups, senior government officials and the police. In some towns, people openly expressed their dissatisfaction with the police's handling of criminals by following up cases and protesting.

Unable to control crime, Mozambique runs the risk of being perceived as a "gangster state." Levels of trust in state authority and state institutions eroded at every level during the period under review. In the future, the state might have to allocate a greater amount to fight organized crime. This would reduce its ability to

spend for education and health systems, which are two key components in fighting poverty.

Despite regional asymmetries and discrimination in the public and private sectors, citizens agree on the sovereignty of the Mozambican nation-state. The concept of “Mocambicanidade” as the expression of national cohesion and common values is widely accepted. This sentiment is being reinforced by the new leadership style of President Armando Guebuza. In the past two years, his political approach has provided tools to reconstruct a sense of national identity. This has included reinterpreting and disseminating the nation’s history and culture, albeit still from the standpoint of Frelimo ideology.

State identity

Intellectuals and members of government have followed the Guebuza approach by providing cultural, historical, political and economic arguments to sustain the distinctive character of the Mozambican nation-state.

Mozambique has no ethnic or regional discrimination. Rather, people are differentiated based on party affiliation. The xenophobic eruptions in the Republic of South Africa in May 2008 and the stream of refugees from Zimbabwe have caused further reflection among the population about the nature of Mozambique’s statehood.

Mozambique is neutral in matters of religion. The state and its constitution are largely defined as a secular order. The government does not support or oppose any particular religious beliefs or practices. Once multiparty elections were instituted, however, candidates from all parties began to campaign for support in churches. As a result, religious leaders have mobilized voters to support the candidates who are close to their religious affiliation or with whom they are closely linked. The ruling elite remains unfazed even when churches criticize the state and government, as the Catholic Bishops’ Conference did in mid-2008. Some Islamic groups seem to be treated especially well, though that may be a courtesy for the many rich Muslim entrepreneurs who support the ruling party.

No interference of religious dogmas

Mozambique is currently undergoing an expansion and strengthening of basic infrastructure. This transformation includes the allocation of financial resources and the opening of public spaces for citizens to monitor and influence police, along with an increase in service delivery, particularly water, education and health. Citizens’ demands go unmet not only because resources are scarce and the state’s capacity is limited, but also because of corruption, lack of qualified employees, and lack of accessibility for most of the poor, particularly women, senior citizens and disabled people. In the context of the rapid socioeconomic transition, taking place in Mozambique, such failures in basic administration can lead to drastic social and economic losses for the local population. In addition, these failures have contributed to low public confidence in local government. This has led to eruptions of violence, especially in Maputo and other southern towns in February 2008.

Basic administration

## 2 | Political Participation

Although Mozambique has signed the African Union Declaration on the Principles Governing Democratic Elections in Africa (2002) and the African Charter on Democracy, Elections and Good Governance (2007), free and fair elections remain a concern.

Free and fair elections

While three general elections (1994, 1999 and 2004) and three local elections (1998, 2003 and 2008) have been held since the formal transition to multiparty democracy, it is widely believed that they failed to meet the basic duties set out in the Principles and Guidelines Governing Democratic Elections of the Southern Africa Development Community (SADC). Observers raised similar concerns about the 2008 local elections, the only elections during the reporting period. These elections drew nationwide interest and efforts, though only 43 towns and “vilas,” (less than a quarter of the population) were voting. International observers called the elections free and in general fair, even though the Electoral Observatory, a consortium of independent NGOs, documented instances of sophisticated fraud and rigging.

The observers noted several shortcomings, which the National Electoral Commission (CNE) must address: organizational mistakes, interference by the ruling party and voter hardships.

The ruling Frelimo party does not observe the principles of open and competitive elections. It uses all its instruments, including its huge financial advantages, control of public resources and domination of the police, community leaders, and state media. The actions of the CNE also tend to favor Frelimo. Only in rare cases does the Constitutional Council correct them.

In Mozambique, elected rulers have the effective power to govern. Policies are drafted in close cooperation between senior political party members and the government. However, the president has tight control over the party structures and the government ministries.

Effective power to govern

Minor problems arise from the influence of corrupt public servants and criminal networks, especially drug traffickers. These people are able to challenge the national anti-corruption policies and anti-crime efforts.

The constitution guarantees the rights of civil society organizations (CSOs) and political parties to organize and assemble freely. The ruling party, however, continues to interfere with public life. The 1990 constitution, despite its pluralistic nature, did not stop this tendency, and although a growing number of CSOs have been established since the law of associations was adopted in 1991, many of them have been founded by people with strong ties to the ruling party.

Association / assembly rights

A government decree regulates the registration and activities of foreign NGOs. The registration process for them and for religious groups involves significant oversight by government officials and commonly takes several months.

With regard to political parties, the constitution and law generally provide for freedom of association, although the government has imposed some limits on this right. A political party is required to demonstrate that it has no regional, racial, ethnic or religious bias and must secure at least 2,000 signatures to be recognized. Currently, Mozambique has approximately 50 registered political parties. In the provinces, opposition parties have to overcome obstacles erected by the public administration and the police: prohibited rallies, arbitrary prison and financial sentences, and intimidation. After President Guebuza was elected in 2004 and Frelimo increased its dominance in the parliament, public space has narrowed. Political activities outside Frelimo are under strict and permanent supervision by the party's local structure and the local administration, particularly in the rural districts outside the city of Maputo. A common saying goes, "Democracy only works in Maputo, outside of Maputo it's a façade." This situation might worsen because of the main opposition party's (Renamo) dramatic loss of status and support.

The constitution provides for freedom of speech and the press. In practice, the government restricts these rights. While the law allows individuals to criticize the government publicly or privately without reprisal, cases occurred during the reporting period in which such criticism resulted in court cases, beatings and interrogations.

Freedom of  
expression

There were occasional reports that police and local officials harassed journalists. Journalists maintain that self-censorship is common. The Media Institute of Southern Africa (MISA) noted in its 2007 annual report that although Mozambique's independent media continued to rapidly expand and diversify, it faced increasing harassment from the courts, prosecutors and district administrators, particularly outside of Maputo Province. Furthermore, court rulings on libel cases during the year constrained press freedom. Reporters Sans Frontieres downgraded Mozambique in the Worldwide Press Freedom Index from rank 45 (2006) to rank 73 (2007) out of 169 countries.

### 3 | Rule of Law

While Mozambique's political elite has agreed on the rules for competing for power, they have not yet agreed on ways to enforce limits on state authority. Strict separation between the executive, legislative and judiciary branches does not exist. The ruling party controls all elected bodies, including the Constitutional Council, although this body made several rulings against government decisions. In general, the Constitutional Council aligns itself with the president. The entire state authority

Separation of  
powers

rests on the president, who is both head of state and of government. According to the constitution, the parliament can hold the head of government accountable, but in practice this accountability is meaningless since the constitution allows the president to replace the premier whenever he wants. Parliament is marred by limited sessions, a restricting standing order and a lack of effective minority rights.

Despite improvement over the past two years, Mozambique's judiciary remains one of the country's weakest sectors. It is still under the control of the ruling party, although the 1990 and 2004 constitutions guarantee both administrative and political independence of the courts. The president appoints Supreme Court judges, many of which made their careers as members of Frelimo.

Independent  
judiciary

The interference on the judiciary does not only come from the ruling elite. The wealthy and the criminal networks also manipulate it. The relative impunity with which some of the successful traffickers operate is often a result of their close connections with individuals in the highest levels of government or the Frelimo party. The USAID-commissioned corruption assessment concludes that "...the key problem in the judiciary is corruption. It manifests itself in the buying and selling of verdicts, the exertion of political control over judicial outcomes, 'losing' evidence or case files, intimidation of witnesses, and freeing of key suspects."

Donors constantly press Mozambique to undertake meaningful judicial reform. There are several judicial projects under way, such as the creation of the Appeal Courts in 2007 as part of the Organic Law and the reform of attorneys' chambers.

Although the ruling elite promotes the maxim "No one is above the law," partial prosecution and abuse of office are part of daily life. Most of the top political and economic elites are immune from prosecution, even when the case concerns serious crimes.

Prosecution of  
office abuse

The Global Integrity Report for Mozambique (2007) gives a rating of "strong" for anti-corruption legislation but "very weak" for the independence and effectiveness of the official anti-corruption agency and for "whistle-blower" protection.

Police regularly detain people for arbitrary reasons and demand identification documents solely to extort payments. Many crime victims decline to seek police assistance because they expect demands for bribes and in general lack confidence that the police will help. From April 2007 to April 2008, the Maputo City Police Command initiated disciplinary and criminal proceedings against 113 Maputo police, expelling 28 from the force. The charges were mostly collaboration with criminals, extortion of goods and money, excessive alcohol consumption, and abandonment of post.

Mozambique's constitution and legal framework establish safeguards for civil rights and liberties, but incidents of serious human rights abuses, including vigilante

Civil rights

killings, increased during the reporting period. Security forces continued to commit extrajudicial killings, although the courts took steps to prosecute perpetrators – many times hindered by the police’s unwillingness to cooperate. Prison conditions improved but remained harsh, resulting in several deaths. The understaffed and inadequately trained judiciary is inefficient and heavily influenced by the ruling party. Societal problems, including domestic violence, discrimination against women, abuse, exploitation, forced child labor, human trafficking, and discrimination against persons with HIV/AIDS, remained widespread.

Arbitrary arrest and detention as well as lengthy pre-trial detention continue to be problems. Detainees’ constitutional rights to counsel and to contact relatives or friends were routinely ignored.

#### 4 | Stability of Democratic Institutions

In a formal sense, Mozambique’s democratic institutions perform according to the constitution. In practice, the absence of effective checks and balances, plurality, and declining participation rates challenge the performance of democratic institutions and good governance. Political competition is so weak in Mozambique that the ruling party has no fear of being thrown out of office because of poor performance.

Performance of  
democratic  
institutions

Accountability concerning the use of public resources is generally weak. The National Assembly of the Republic holds regular hearings on the execution of the government’s programs and annual budgets, but only a few members of parliament have the professional background to analyze these kinds of documents. Moreover, there is no follow up on recommendations regarding budget irregularities, even when they involve flagrant violations of the law. Budget constraints also prevent legislators from monitoring the implementation of government programs and linking plans to concrete activities in their electoral districts. The yearly reports of the Administrative Court have the potential to gain respect and influence as a control instrument.

Formally, members of the government and the political and economic elite respect the democratic institutions but do not always support them. This stems from the highly centralized political system, which is greatly weighted towards the executive president. Parliament and court decisions are not taken serious enough. The revocation of several institutions by the Constitutional Council – on grounds of unconstitutionality – has shown that the executive is not yet sufficiently aware of the separation of powers.

Commitment to  
democratic  
institutions

## 5 | Political and Social Integration

Instead of reflecting the interests of social groups, the party system reveals the faultiness, fissures and fads among political elites. Opposition parties did not improve their performance during the reporting period. Many of them are vehicles to promote personal bids for power. Instead, the goals pursued by party leaders vary from grabbing a few crumbs of the national pie to gaining a role in the everyday operation of government. Opposition parties in Mozambique display the following faults: weak organization, unreliable membership data, a poor funding base, lack of human resources, dominance of informal relations such as patronage and clientelism, lack of intra-party democracy and communication, factionalism, weak formal links with citizens, and a lack of strong ideologies. These parties, predominantly based in Maputo, operate in a difficult environment characterized by a high level of poverty and a lack of trust from citizens. Some people hold out hope for the new Democratic Movement of Mozambique, which was formed at the end of 2008 by young Renamo dissidents.

Party system

The latest election results reflect the lack of public support for opposition parties. Some political commentators say this trend is an indication that opposition parties are becoming increasingly fragile. Voter apathy is also increasing. Frelimo has been successful in getting its captive electorate to vote, while Renamo's electoral base is withdrawing into abstention.

Despite the growing number of CSOs, civil society as a whole, including interest groups, remains weak. Studies commissioned by Civicus and by MASC reveal that the CSOs are especially weak in internal management and democratic governance. They tend to rely on donors' funds while their members' contributions are insignificant. They are largely ineffective in empowering people and in representing citizens and their interests.

Interest groups

The regime spends considerable resources to control state and social organizations. Frelimo has penetrated major CSOs and remains tied to former party-state mass organizations like the National Youth Organization (ONJ) and the Mozambican Women's Organization (OMM). In addition, the confederation of trade unions (OTM-CS) is supposed to represent Mozambique's entire work force but has served as a Frelimo organizing tool.

The multiparty system has not yet purged the old authoritarian values from political institutions. Citizens are often confronted with a choice between proponents of the old authoritarianism and defenders of pluralistic institutions. The Afrobarometer 2005 (data actualized to 2005) survey revealed that public support for multiparty democracy fell well below the average of 18 sub-Saharan countries: only 47% of Mozambicans believe that the president must obey the law and the courts (average

Consent to  
democratic norms

67%); 52% disapprove of a one-party system (average 71%); 57% disapprove of military rule (average 73%); and only 42% disapprove of one-man rule (average 76%).

Mozambicans also showed relatively low support for an active parliament and other means of keeping presidential power in check. In an earlier study, fewer than 43% supported the constitutional two-term limit for the president.

The combination of weak civil society organizations and state-controlled associations has resulted in public quiescence. Activities happen mostly on the local level. Little trust exists within society. It is still too early to claim for Mozambique an emerging social consensus and the existence of social capital. Environmentally focused organizations have become more active during the past years, and some individual human rights and anti-corruption whistle-blower organizations perform in an outstanding manner – and are therefore overworked.

Associational  
activities

## II. Market Economy

The market economy has been attractive for the ruling elite, as it provided re-entry into the global system, cushioned by considerable financial support from Western donors and multilateral agencies. The elite profited in the 1990s from the rents yielded by privatization – the bank privatization with the disappearance of large sums of money being only one part of it. Another source of the elite's power comes from rents involving development aid. Together, this wealth has fortified and stabilized the elite's political influence.

### 6 | Level of Socioeconomic Development

A lower HDI of 0.366 indicates that the socioeconomic status of the majority of the people is, in the best case, stagnating. Mozambique currently ranks 175th out of 179 countries, down from rank 172. Official claims that poverty has been brought down still relate to somewhat outdated data collected from between 1997 and 2003. Independent studies estimate that 52% of the population remains in absolute poverty. Another 15-18% escaped poverty, though perhaps only temporarily. Sickness, natural disaster or the death of a family member could push them again under the poverty line.

Socioeconomic  
barriers

Traditionally a rural problem, poverty has been growing in urban areas. The country's sustained 7-8% GDP growth over the years occurred without the population participating. Employment growth lagged well below GDP growth. The lack of any trickle down resulted in a Mozambican model of "growth without development."

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	5698	6578.5	7095	<b>8010.5</b>
Growth of GDP	%	7.9	8.4	8.7	<b>7.0</b>
Inflation (CPI)	%	12.7	7.2	13.2	<b>8.2</b>
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	4.3	1.6	2.2	<b>5.3</b>
Export growth	%	13.1	6.5	8.0	<b>-8.2</b>
Import growth	%	-7.5	9.4	10.0	<b>-2.1</b>
Current account balance	\$ mn.	-607.4	-760.7	-773.2	<b>-785.3</b>
Public debt	\$ mn.	3711.5	3719.4	2354.1	<b>2532.8</b>
External debt	\$ mn.	4811.2	4507.1	2984.6	<b>3104.9</b>
Total debt service	% of GNI	1.4	1.4	0.8	<b>0.6</b>
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	10.8	10.4	10.7	<b>11.8</b>
Public expnd. on edu.	% of GDP	4.5	5.2	5.2	-
Public expnd. on health	% of GDP	2.9	2.9	3.5	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.4	0.9	0.8	<b>0.9</b>

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

## 7 | Organization of the Market and Competition

Mozambique is called a market economy, but the heart of such a system, small and medium enterprises, is still weak. In total, the formal sector absorbs only 10% of the labor force.

Market-based  
competition

The institutional framework for market competition is partially in place but has considerable shortcomings in the areas of business law, labor regulations, taxes, registration and administrative red tape. The government intends to draft a public-private partnership law by end of 2009 and a competition policy with a respective law. The public enterprise law is being delayed until the end of 2009. The government still intends to adhere to the Extractive Industries Transparency Initiative (EITI), though its lengthy implementation has not yet started.

Mozambique has no anti-cartel legislation and no specific competition watchdog. Large-scale industries like aluminum smelting, gas production, mineral extraction, cereal milling and the production of beer, soft drinks, and sugar all operate under monopolistic or oligopolistic conditions. These industries belong to big foreign monopolies or oligopolies, especially from the Republic of South Africa. Air transport in Mozambique has fallen back into a monopoly after the collapse of the country's second carrier. Well-connected entrepreneurs can get certain advantages, such as tax exemptions for imports. Some sectors, like mobile communications and retail business, are competitive.

Anti-monopoly  
policy

The citizen cannot follow the state's procurement processes. They remain a secret, as do the licenses for prospecting and contracts with foreign investors.

Traditionally, the propensity for a liberal trade regime has been high in Mozambique. The adoption of the free trade clause of the Southern African Development Community (SADC), which became effective 2008, supports this. Though some regulations and definitions remain for the SADC to clarify, theoretically 85% of Mozambique's imports could already enter tax-free after the clause goes into effect.

Liberalization of  
foreign trade

Mozambique's banking system is dominated by Portuguese and South African capital. It follows the business of their foreign direct investment clients and concentrates in Maputo and the provincial capitals. Several development banks have been established in Maputo and are extending only slowly into the provinces. In 2008, only 40 of 128 districts had at least one bank branch. The cost of credit for small and medium firms is high, and there is limited access to microfinance. The high gap between lending and deposit rates indicates the lack of guarantees (the constitution bans the use of land as collateral) and competition within the banking sector.

Banking system

The Central Bank is working on a Risk-Based Supervision Framework for the commercial banks and envisages Basel II.

## 8 | Currency and Price Stability

The highly respected Central Bank was successful in controlling inflation, although the external shocks of rising oil and food prices in 2008 pushed the consumer price index beyond the planned single digit inflation rate. During the reporting period the exchange rate of the metical remained stable against the U.S. dollar and the euro and gained against the South African rand.

Anti-inflation /  
forex policy

The IMF continues to closely monitor Mozambique's financial policy. The government would not risk forfeiting the high rewards of the international finance organizations and the donor community by ignoring their demands. Foreign debt was reduced from \$4.65 billion at end of 2005 to \$3.3 billion at the end of 2007 thanks to the HIPC initiative, the MDRI and bilateral relief. At the same time, domestic debt has doubled since 2005 but remains manageable, because it also includes the obligations of solvent foreign private investors.

Macrostability

Mozambique owes its macrostability to high – and rising – donor disbursements and massive foreign direct investment. 50-52% of the annual budget is donor financed. These aid disbursements are projected for 2009 to cover 16.2% of GDP. The finance minister has announced a plan to cover nearly 56% of the budget through domestic revenues by 2011.

## 9 | Private Property

Property rights and property acquisition follow the rules and laws commonly introduced in new market economies. Land is the exception. It remains state property and can only be leased. The land rule is one of the ideological leftovers of the socialist period and as such is not negotiable for the regime, despite its great disadvantages especially for rural credit and for small and medium enterprises. On the other hand, land is treated like private property when it comes to disbursing it among the political elite. People lose out against business firms, which can lease from the state vast parts of their traditionally used land. In general, the law protects property rights, although under the current judicial situation the process of redress can be lengthy.

Property rights

Private enterprise is the basis of Mozambique's economy. In the last decade, the state concentrated on megaprojects with foreign oligopolies, which account for 26% of Mozambique's GDP and employ 60,000 people. Small and medium enterprises account for 270,000 workers (57% of the formal labor force) and produce 15-20% of GDP.

Private enterprise

Small firm owners cite corruption and bureaucracy as the main impediments to their work. For example, the time taken for tax declarations – 37 different payments

during the year – is 230 hours. To register a business, one needs a bank account and a specific level of capital, exigencies once introduced by the Portuguese colonial authority to keep local Africans away from business.

The great wave of privatization is over. Shares in state enterprises sold at the stock exchange (telecommunication Mcel or National Oil Company ENH) are bought by the nomenklatura and further enrich the ruling elite.

Nevertheless, the state still owns or participates in 155 enterprises, of which 40 are still working. The 2009 budget contains some \$18 Million for their subvention.

## 10 | Welfare Regime

The real social safety net in Mozambique is still the extended family, although that has been damaged by HIV/AIDS, migration and absolute poverty. A social security system exists (INSS) in an incipient stage. By mid-2008, some 175,000 people contributed to INSS and more than 20,000 received a pension out of an adult population of nearly 10 million. In 2012, the system will be exhausted and need government subsidies. The minimum pension was raised in 2008 from \$40 to \$51 per month.

Social safety nets

INSS hasn't been balanced since 2005; its debts are not known and shares of INSS in other institutions are not audited. The minister of labor interferes massively in the affairs of INSS and uses some of its savings to finance the running costs of her ministry.

At times, legal obligations are not honored, as in the case of 12,000 "veterans" (antiguos combatentes) who have not yet received their pensions despite a ministry that was created especially for veterans' affairs.

Living outside of Maputo is already a considerable disadvantage, particularly living in a rural community. In the beginning of 2006, only 59 out of 128 district capitals had power. 23% of the rural population and 66% of urban dwellers have access to safe water. Improved sanitation is available for 53%. 56% of people over the age of 15 are illiterate. The nutrition standard remains low. The Gini coefficient of 0.573 (2007) signifies a further differentiation of incomes. HIV/AIDS is not the only epidemic. The rural population's distrust of the state has grown to such an extent that people reject and threaten health workers who come to help combat cholera.

Equal opportunity

It is amazing how the subsistence farmer can survive on so little: an average small scale cotton farmer gets 80 USD gross for his harvest. A cashew grower with 80 trees receives between 16 – 33 USD per year.

The government tries to mitigate gender related discrimination, e.g. by the law against domestic violence 2008. The female adult literacy was 56.2% of male literacy.

## 11 | Economic Performance

The macroeconomic data, especially the respectable long term GDP growth rate, conceal the stagnation of Mozambique's internal production and labor markets. Growth still depends on a few foreign enterprises (aluminum smelting and the extractive sector) and to some extent on tourism and services. Domestic entrepreneurship and the local workforce remain unqualified and underdeveloped. Furthermore, the megaprojects' net support for the balance of payments is modest; their tax exemptions are so generous that the state tax revenues benefit only a little.

Output strength

For 2009 onwards, the IMF predicts a reduced growth rate of around 6% combined with continued macroeconomic stability if the government maintains prudent monetary and fiscal policies. If the government does nothing to reform the internal productive structure of the country, it will continue to depend heavily on external factors like the volume of the remittances of Mozambican workers in the South African mines – which outnumber international aid – world oil and food prices, and the market prices of exported commodities and aluminum.

## 12 | Sustainability

The environment suffers from the same degradation that characterizes most African countries. Mozambique wastes valuable resources, which could secure the livelihood of thousands of families. Overfishing of the marine resources – mostly by foreign trawler fleets - threatens the artisanal fishing sector. Timber logging of hardwood for export to Asia – to a great extent illegal – decimates forests and prevents job growth in the lumber industry. Bush fires, set on purpose, destroy more than 200,000 hectares of forest per year, along with cashew trees, houses and agricultural plantations. The final degradation comes then with the charcoal business.

Environmental policy

The destruction of the natural environment has yet to become an issue for the Attorney General and the judiciary. When business and environmental interests clash, the environment loses out.

In the education sector, uphill tasks still lay ahead. Only 27% of girls and 40% of boys finish the 7th year of primary education; 1% of girls and 2% of boys finish secondary school (2005). In 2005, 41% of primary school teachers and 33% of secondary school teachers had no formal professional training. In 2007, this training has been reduced from three years to only one year. 80% or more of secondary

Education policy / R&D

school graduates and 40% of university graduates cannot find jobs. With an education index of 0.435, Mozambique remains at the bottom of the SADC region. Government spending on education was 4.3% of GDP in 2004, 5.0% in 2005 and 4.7% in 2006. These rates of spending put Mozambique in the middle of the African countries with regard to investment in education.

Professional training provided by the state is incipient. It mostly happens “on the job” and is organized by the firms themselves. R&D is implemented on a small scale by some institutes and universities. The country mainly relies on technology and knowledge transfer via foreign direct investment and international aid.

## Transformation Management

### I. Level of Difficulty

The transformation process is hampered by constraints that can only be resolved in the long term. These include extreme poverty, the low educational level, the HIV/AIDS pandemic, which has not yet reached its climax, inadequate infrastructure and nonexistent service delivery in most parts of the country. Natural disasters, always present in Mozambique, were not too frequent during the reporting period: some floods and cyclones destroyed several localities but could be dealt with by Mozambican means. The xenophobic eruption in the Republic of South Africa 2008 and the refugees from Zimbabwe reminded the Mozambicans of their vulnerability and dependence on developments from outside. The fuel price shock of early 2008, along with rising food prices, made clear that people do not accept external causes as an excuse. They turn their anger against the government if it does not prepare its policies in time.

Structural  
constraints

Civil society has a short history in Mozambique. That is largely the result of a colonial regime that prevented every authentic articulation of the population, and in which independence led to a self-nominated elite that pretends to be the people. The elite claim to act in the best interests of the people and therefore mistrust any interest group outside the control of the “political family.” The 2007 Index of Civil Society, developed by Civicus for more than 50 countries, gave Mozambique’s civil society low values: 1.0 for the impact of the activities of the civil society actors; 1.1 for their organizational structure and resources; and 1.1 for their practiced and promoted values (range from 0 – 3). A 2004-2005 census of NGOs counted 152 national NGOs and 188 international ones with a total of 9,000 employees. In 2003, the number of civil society organizations without profit motive amounted to 4833. They clustered in five provinces, mostly in the southern part of the country.

Civil society  
traditions

There are no ethnic or religious cleavages that could be exploited for mass mobilization or for inciting violence. Social eruptions have become more likely after the hardships of 2008, but they are manifestations of frustration and remain isolated and short. No opposition party is capable of channeling people’s power into alternative policies.

Conflict intensity

The poor of Mozambique have an amazing ability to live at a minimum subsistence level. They largely abstain from political, class, ethnic or religious incitement.

## II. Management Performance

### 14 | Steering Capability

The government developed Agenda 2025 as its vision for the country after discussions with several social and political groups. The plan, however, has largely dropped out of sight. More relevant is the poverty reduction strategy, supported by the five-year strategy paper, which serves as the foundation for dialogue with donors. Fighting absolute poverty has also become the central objective of the ruling party and, consequently, the whole state apparatus. This plan has lost some of its mobilization capacity because of its constant use and a seemingly unchanged reality. But the ruling elite sticks to it. It is simple and broad enough to summarize all objectives and activities and to provide orientation. In the end, everything can be defined as poverty alleviation and made to show that the government and the party are delivering. In this sense, the Millennium Development Goals also fit into the government's mission, as do the plans of the many (international) development organizations.

Prioritization

Besides this main directive there exists a growing number of sector plans, which ideally should be coordinated by the Ministry of Planning and Development. Like with the issue of poverty relief, donor interest and the constant evaluations by the Joint Review assure that these secondary plans remain on the agenda.

Another priority is improving the functioning of the state bureaucracy. This is also an important objective for the donors. Programs that enhance de-concentration (the government is not interested in decentralization) and raise efficiency garner full government support.

Through the absolute dominance of the President's Office and the Ministry of Planning and Development, a certain streamlining of the priorities is possible.

For short-term goals, the government relies almost exclusively on the criteria of the Joint Reviews, which are composed by working groups of government and donor experts who sit throughout the year to discuss and prepare semi-annual evaluations. Many shortcomings prevent the implementation of goals. They range from an

Implementation

inexperienced administration and bureaucratic blockades (e.g., intra- or inter-ministerial differences) to infrastructural obstacles and a fear of making decisions without explicit orders of a particular minister or provincial governor. In sensitive implementation cases, which always occur when good governance is at stake, political actors often demonstrate a lack of will. Highly vulnerable are the judicial sector, anti-corruption efforts, the devolution of power to lower tiers and transparency programs.

The government has used the following tactics to stop or slow down the implementation of policy goals: regrouping or dissolving administrative units; the dismissal or transfer of people it considers “too courageous”; parking decisions in the courts for indefinite periods; splitting responsibilities between different ministries or institutions (for example, a unit can only investigate corruption cases but not follow them up in court); and reducing the budget for a reform activity.

The government and police have publicized the number of dismissals or punishments of employees who obstruct state law and orders. These numbers cannot be verified.

Innovations in development policies, administrative methods and procedures are almost exclusively promoted by the different donor working groups. These donors have been expressing their satisfaction with the government’s performance in each Joint Review. There is still a long way to go, however, in improving the overall quality of service for the citizens. The state’s incompetence was highlighted, for example, in its reaction to the explosion of an ammunition depot in Maputo in March 2007. The explosion killed more than 100 people, wounded more than 500, and destroyed or damaged more than 12,000 houses. The authorities reacted slowly and with meager compensations. The entire process lacked transparency.

The government shows little flexibility and propensity to adapt its general strategies. It is highly averse to all activities that loosen its control. The level of local government reached by now is well below the obligations of the General Peace Agreement, and the “District Fund” (Fundo de Investimentos de Iniciativa Local), a yearly disbursement of some \$300,000 per district, remains highly centralized with changing objectives and very limited participation of the local population. The riots of February 2008 took the government and party by surprise, and neither has found an answer to address the fundamental causes. There is also no policy in sight for a type of industrialization that promotes local small and medium-sized businesses. The government remained fixed on megaprojects. The same applies to agriculture. The government is only interested in agro-industrialization, while with the majority of the population still survive on subsistence levels.

Policy learning

## 15 | Resource Efficiency

Efficient use of administrative and human resources have improved wherever rational systems, like the State Financial Administration System (SISTAFE), are in place.

Efficient use of assets

On the other hand, Frelimo has demonstrated that party interests beat good governance. One example of this is the respected mayor of Maputo, Eneas Comiche, who lost the party internal election and was thus prevented from standing for reelection in November 2008. Observers ascribe it to the fact that he has not misused his office to satisfy the special interests of well-connected businessmen and party representatives.

The broader population has certainly not been encouraged to release and develop their self-help forces.

Some policy coordination exists, as the policies come from the inner party circle and the president's office. The party leadership has made clear to the provincial governors and district administrators that it is the party that has put them into their posts and that the party expects them to do their respective duties. The cabinet (conselho de ministros) is not a political factor. The president has reinforced his control over the government structure. After relative stability in his first two years in office, he began after February 2007 to change ministers, governors, and the heads of security institutions quite often.

Policy coordination

The legal framework for addressing corruption is based on a law from 2004, which created the Anti-Corruption Central Office (GCCC) under the attorney general's leadership. It was not until 2007 that the function of the GCCC was finally decided. The GCCC conducts the investigations regarding corruption cases and then hands these cases over to the attorney general, who makes the formal accusation and forwards the charges to the courts for trial. So far, the state has not brought corruption charges against any high level actor.

Anti-corruption policy

At times, a government action appears as a leap forward and surprises observers, as in the September 2008 detention of A. Manhenje, a powerful minister under the former president Chissano (until February 2005) with a long corruption dossier. The handling of his case will show if the Guebuza wing wants to curb the Chissano wing and at the same time provide with a demonstrative example for government's commitment to fight corruption, or if the government is now engaging in a genuine policy change towards of zero tolerance. Other signs that the government is intensifying its efforts against corruption include the detentions of the CEO of the Mozambican Airport Company and of the former minister for transport and communication, the case of Albano Silva, an important lawyer and spouse of the

Prime Minister Luisa Diogo, who lost a widely covered court case, and the 2008 report of the Administrative Tribunal, which denounced 200 public managers who were notified to return misappropriated state funds.

## 16 | Consensus-Building

All the relevant social and political actors subscribe to the ideals of multiparty democracy, rule of law, separation of powers and market-based economy. Differences exist with respect to the definition and implementation of these objectives. The majority of the people see job creation, not poverty alleviation, as their top priority, but they are not organized and have no voice.

Consensus on goals

The most powerful veto forces against genuine democratic reforms exist within the ruling party itself. The need to appease them might explain the sluggish pace of reform when it comes to sensitive issues. Party unity remains the highest priority. No anti-democratic political forces exist. The opposition leader's questionable understanding of democracy is no longer relevant.

Anti-democratic veto actors

Cleavages are no threat in Mozambique. The ruling party has addressed regional imbalances within its ranks by strengthening the presence of the central and northern provinces in important posts. Groups who still feel that they have not received the benefits stipulated by the General Peace Agreement have insufficient clout and remain overlooked.

Cleavage / conflict management

The interaction between state and civil society is still superficial and informal; the government's calls for participation are in reality often invitations for acclamation only. Civil society actors either can come under the umbrella of the ruling party and enjoy its goodwill, or they can remain independent and have to defend their objectives and activities against state and party interference and mistrust.

Civil society participation

Reconciliation between the former civil war opponents, now institutionalized in the two parties Frelimo and Renamo, would promote national unity. The parties remain more like enemies than like political opponents. Frelimo has not only imposed its view of the national history on the population but also incorporated the image of the "armed bandits" as one corner stone of its own identity.

Reconciliation

## 17 | International Cooperation

Mozambique has become a sort of showcase for donor support, with several innovations having been introduced first in this country. Most of the donors coordinate their aid within the G 19, with close links to other countries like the United States and Japan and institutions like the World Bank and the IMF. The Western donors' concept focuses on "ownership" and the responsibility of

Effective use of support

Mozambique for the funds. The government has passed all evaluations and common reviews by the donors, which are now based on the observation of a large set of criteria. The government was able to comply with the expectations of the Western donors, and at the same time – using the aid resources - extend its own power base in the country, which included a dilatory treatment of sensitive issues. For this situation, two political scientists have created the term “pathological equilibrium,” which means that in order to keep the development cooperation going and achieve a long-term impact, the donors accept the government and party’s non-compliance in area of good governance.

Additionally, the government has intensified relations with China and India, which have offered, and are implementing, aid and foreign investment projects. China is especially lauded for its support “without conditions.”

On the basis of the growth rate, a sustainable peace, a relatively high degree of compliance with donor suggestions and a capable representation of Mozambican interests in the international community, the government has created sufficient credibility to remain on the priority list for international aid. How far the donors feel tied to Mozambique after their high transfers for such a long time and thus shy away from harsh critique or a substantial reduction of aid would be worthy of study. Foreign direct investors certainly evaluate the frame factors positively but base their decisions more on the market forecasts and their global plans. In this sense, Mozambique is an attractive piece of the regional oligopolistic strategy of the South African mining and energy sector and for other foreign commodity interests even without tax relief, multiparty democracy or human rights. The same applies to tourism projects, where Mozambique still holds a niche position. Other investment, especially in labor-intensive manufacturing, is more likely to respond to a good reform track record.

Credibility

Mozambique is a relatively active member of the Southern African Development Community (SADC) without being a prime advocate for further integration processes. Additional ties stem from the historical cooperation between the former liberation movements; some observers call it an “alliance.” The relations to parties and states like SWAPO/Namibia, MPLA/Angola, ZANU (PF)/Zimbabwe, ANC/Republic of South Africa reflect this common history, but also a common interest to maintain their dominant position as parties (the good relations with CCM/Tanzania fit into this picture). Frelimo closely observes and reacts to any threat to the other parties’ dominance. With respect to Mugabe, Frelimo is acting as the staunchest supporter.

Regional  
cooperation

## Strategic Outlook

The external shocks that developed during the reporting period took the ruling elite in Mozambique by surprise. Substantial policy responses are not yet in place but must be urgently developed. They center on dissolving four bottlenecks, which threaten Mozambique's long-term development:

**Broad-based industrialization:** The world recession has lowered oil prices and prices of Mozambique's main export commodities, especially aluminum. That the mega aluminum smelter project is laying off workers was until now unthinkable. As the factory does not pay taxes or import duties, its net effect for the economy will shrink even further. The price stability of other commodities does not offer safer prospects. The lesson for the government would be to diversify its own economy. Mozambique must change its economic policy toward internally centered industrialization – a task that a local expert has characterized as a “revolution.” Special attention must be directed towards growing small and medium-sized enterprises, the professional training of a local labor force, and the support of forward and backward linkages for the productive sectors.

**Rural and agricultural development:** As food prices will continue their upward trend, the government will either have to pay more subsidies to keep the bread price down, and lose more and more of its own revenue, or risk a growing propensity for riots by the poor population. Again, the country urgently needs a new development policy, this time for the rural areas and the agricultural and fishing subsistence sector, together with an energetic policy for the protection of its natural resources. This must provide the basis for local manufacturing and processing enterprises and should be supported by a more consequent development of rural infrastructure.

**Financial equilibrium:** In 2007, the government approved foreign direct investment projects totaling nearly \$8 billion. If the investors reschedule their plans because of liquidity bottlenecks in their banks, this would pose a threat to the balance of payments. The government must also be prepared for the possibility that not every donor can honor commitments made in more sanguine financial times. A very modest reduction of budget aid by the Swedish and Swiss governments for 2009 – because of unsatisfactory governance improvements – has already caused some problems. The government announced that it would cover the loss with its own revenue. This would be difficult in the case of greater aid cuts due to the donors' financial constraints. Other sources of Mozambican revenue are also likely to shrink. Progress with respect to industrial and agricultural development would broaden the local tax base and allow Mozambicans to compete in the regional SADC market. The government can prevent aid cuts by following through on its promises of reforms (although the tolerance level of the donors is still very high).

**Broad liberalization:** The iron grip of the ruling party on the state, the judiciary, democratic institutions and organizations, civil society, parties, and the economy increasingly excludes more people, frustrates professionals, and prevents the development of creative cells. In general, it

suffocates the self-help of large portions of the population. Breaking up the omnipresent control system and party clientelism and securing political competition is therefore the first step to broad participation by all Mozambicans and development for all.

In conclusion, transparency of the executive, greater involvement of civil society and parliament in policy dialogue and accountability, strengthening the judiciary, and the devolution of competences and resources to lower levels of government remain the key factors for a successful transformation.