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# CHAPTER 13: SYNTHESIS AND POLICY RECOMMENDATIONS

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# Economic development and institutions

## Mozambique at a fork in the road: an institutional diagnostic

# Chapter 13: Synthesis and policy recommendations

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## 1 Introduction

We now proceed to bringing together the different elements of previous chapters with the aim of presenting the essence of this country study of Mozambique. In the next section, we take stock and revisit our points of departure from Chapters 2 and 3. This background work culminated in the identification of nine thematic areas, subsequently subjected to individual in-depth studies in Chapters 4–12. We outline the core findings from these studies, and present our integrated analysis of key institutional weaknesses. Next, we go a decisive step further, and analyse and discuss their proximate causes and deep factors. We end with a series of ideas for reform, as an input to national reflection, debate, and action.

Before we start, we would like to add a word of caution on four aspects.

The first aspect is the uniqueness of the Mozambican case. As highlighted throughout this volume, Mozambique's historical and more recent development experience has been exceptional in many aspects, including for example that Mozambique became independent much later than nearly all other African countries. This creates analytical challenges in terms of untangling the complexity of the links between institutions and economic development and the broader regional and global context. So, and to be clear, even though we included a brief comparison between Mozambique and its neighbouring and peer countries in terms of their performance in international institutional indicators in Chapter 3, our goal is not to assess whether/how Mozambique deviates from some kind of norm. The institutional weaknesses and underlying causes and mechanisms may not be unique in the sense that they might also apply to other countries. Yet the focus of our study is on understanding the relationship between institutions and development in the specific case of Mozambique.

The second aspect is the direction of causality in the relationship between institutions and economic development. The perspective adopted in this volume assumes that the link is from institutions to economic development. However, we recognize that this relationship is in reality more complex. The level of development also affects institutional performance (e.g. Chang 2011). Accordingly, low development hampers institutional improvement. This is also true in the case of Mozambique. For example, Mozambique emerged from a particularly dramatic history in 1975 when it achieved independence with extremely low levels of education among the indigenous population. Financial resources were exceedingly scarce, and only available from external sources and therefore dependent on political and other conditions with wide-ranging consequences (including the last phase of the Cold War, which affected how donors treated a strategically located country next to apartheid South Africa). Similarly, distorted economic structures clearly influenced the formation of the institutional set-up and subsequent developments, and the same goes for the institutions put in place under wartime conditions in the 1980s and more recently.

The third word of caution relates to the proposals for reform put forward at the end of this synthesis. Arguably, some of them are ambitious in the sense that they would not necessarily gather political consensus, specifically when they do not speak favourably to all groups in society. Given that the analysis uncovers both deep factors and proximate causes for the institutional weaknesses and their economic consequences, some of the proposals are difficult to implement and require fundamental changes. Yet we believe that this study would be incomplete if we were to shy away from making concrete proposals aimed at overcoming current obstacles.

The final point refers to the consequences of Covid-19, which is affecting the world and Mozambique (Addison et al. 2020). Even if we are unsure about how the situation will develop in the coming months in more specific terms, there will be clear social and economic consequences that will affect development in Mozambique. At the time of finalizing the thematic studies and writing this synthesis, it remains too early to discuss in detail what will happen. However, we will reflect on this dimension in the last section.

## 2 Taking stock

We now briefly revisit the history and socioeconomic context of Mozambique and refer to the performance of the country according to different institutional indicators, also drawing on the assessment of perceived institutional constraints.

### 2.1 Troubled history

Historical roots go deep in Mozambique, including ethnic and regional diversity, interaction and conflict among Bantu tribes, and Arab influence from around 1100 CE. After the arrival of Vasco da Gama in 1498, the Portuguese gradually extended their control over the territory. The colonial system developed over centuries and deepened significantly from the mid-1880s, relying on investment by foreign capital and companies, especially British, Rhodesian, and South African.

Before 1960, Mozambique mainly supplied cheap raw materials to Portugal and labour and transport services to neighbouring countries (the hinterland). Whatever infrastructure existed ran east–west, and the vast country remained economically disintegrated in the north–south dimension, with the capital—then Lourenço Marques—in the far south very close to South Africa. In fact, the southern part of the country was more integrated economically with South Africa than with the centre and northern regions. Moreover, the local, mainly agriculture-based, economy continued to be underdeveloped. Both of these fundamental characteristics remain very much in place to this day.

The last 20 years of the colonial period saw large inflows of Portuguese settlers, some agricultural and industrial progress, and the liberation struggle, initiated by the Front for the Liberation of Mozambique (FRELIMO). Originally constitutionalist and non-violent, FRELIMO opted for armed struggle in 1964. A decade of violent conflict followed until independence suddenly happened, after the Carnation Revolution in 1974 in Portugal.

The assassination of the first president of Frelimo, Eduardo Mondlane, in Dar es Salaam in 1969 led to an internal power scuffle along ideological lines, which resulted in the expulsion (and subsequent execution) of the heir apparent, Uria Simango (see Pitcher 2020).[1] Samora Machel took over as party chair, and formal independence and the foundation of The People's Republic of Mozambique as a one-party socialist state was achieved on 25 June 1975 under the leadership of Frelimo and President Samora Machel.

The struggle-hardened Frelimo 'comrades', who took over government, originally enjoyed a high degree of legitimacy and quite extensive public support, built around a socialist-inspired social contract. To date this has arguably provided the only credible unifying development vision for the country. As was the case in Vietnam in the mid-1970s (after Vietnam's defeat of US forces), the atmosphere in Mozambique was at the time 'upbeat'. Frelimo optimistically declared that the coming decade would see 'victory over under-development'. While this was naïve in retrospect, it appeared at the time self-evident to many.

Yet post-independence challenges and ruptures quickly mounted. Key factors include:

- The exodus of some 80 per cent of the Portuguese settlers, involving several hundred thousand people. This devastated the public administration and led to an almost total collapse of commercial agriculture, with millions of peasants left without inputs, supplies, or market access. Institutions disintegrated with the departure of the Portuguese. Thus, living and educational/managerial standards were dismal to begin with in the newly independent state.
- As already alluded to, independence in Mozambique came suddenly as well as late as compared with other African countries, and regional anti-apartheid (Rhodesia and South Africa) and global (Cold War) conflicts left the new country with very little room for manoeuvre, politically or economically. This turned out to be very costly indeed, illustrated by the massive economic and military costs associated with Mozambique's decision to enforce United Nations sanctions against Rhodesia.
- Misguided economic choices were made during the years following the Third Frelimo Congress in 1977. Frelimo declared itself a Marxist-Leninist vanguard party and pursued policies including state farms, forced mechanization of agriculture, and resettlement of large numbers of people. Rather than winning increasing support among the peasantry, Frelimo was losing it. At the Fourth Congress in 1984, Frelimo openly recognized the neglect of small peasant farmers, but by then the country was at war. Also relevant throughout is the fact that many influential members of the Frelimo leadership opposed private sector development due to their political outlook.
- The development, with Rhodesian and South African support, of Mozambican National Resistance (MNR) (renamed Renamo in 1980) as an effective military force (that became the main political opposition party from 1994 onwards). Renamo incorporated people with roots in central Mozambique (where religious and ethnic grievances were both common and deep), and gradually absorbed others who had become increasingly critical of Frelimo. In addition, a significant number of people were kidnapped and forced into Renamo ranks. With the independence of Zimbabwe in 1980, hopes were high that a turnaround might be possible. Yet, backed by South Africa, Renamo slowly but surely undermined Frelimo's

[1] Dissidents from Frelimo came to play an important role in the establishment of Mozambican National Resistance (MNR), later renamed Renamo, which has opposed Frelimo politically and militarily since the late 1970s.

nation-building efforts. On the other side, Frelimo cadres remained steadfast in criminalizing the insurgents and their supporters.

A brief glimmer of renewed optimism occurred with the signing of the Nkomati Accord between Mozambique and South Africa in 1984. Yet large-scale destruction of infrastructure and killings continued with support from South Africa, though rather more covertly, and a political settlement was not on the cards before the end the Cold War and subsequently of apartheid in 1992. In October of that year, Frelimo and Renamo signed the Rome General Peace Accords that ended more than a decade of gruesome destruction, including more than one million dead.

Thus, when Mozambique introduced multiparty elections in 1994 and went to the polls with Frelimo and Renamo as the key contenders and a voter turnout of 88 per cent, the country had been at war for two and a half out of the previous three decades. Joaquim Chissano, who took over from Samora Machel after his death in a plane crash in South Africa in 1986, was elected president, and Frelimo gained majority control of the Assembly of the Republic. It has maintained this control ever since.[2]

In this context, and in spite of the significant economic recovery that took place in the second part of the 1990s and first years of the 2000s, a sustainable political settlement would have required at least some degree of political and economic power-sharing. This did not come about. In fact, quite the opposite happened, and the country, its people, and the economy have since then experienced increasing rather than decreasing fragmentation economically and politically.

The international donor community responded with significant amounts of foreign assistance in the form of humanitarian and grant aid and soft loans following peace in 1992; foreign aid remains a crucial factor in the modern history of Mozambique. Economic recovery took place in the 1990s, supported by aid, but a growth engine for sustained inclusive development remained lacking. In spite of its rhetoric, Frelimo failed in these years to implement the measures necessary for agricultural development, which is critical for structural transformation, poverty reduction, and inclusive development, both vertically and horizontally between different groups of people and different regions of the country. The same goes for the two first decades of the twenty-first century.

As is clear, Mozambique has experienced violent conflict at different stages of its history. The most recent is the military insurgency in Cabo Delgado since mid-2018. The causes of this conflict are subject to debate, but likely include local discontent caused by limited socioeconomic development and the activities of both local and international Islamic groups in an area where illegal trade is widespread. Critically, these tensions have the potential to spill over to other parts of northern and central Mozambique if not addressed effectively.

This will require that the country both adopts and implements an inclusive and coherent growth and development strategy, which, as noted, has been lacking for decades. It will also require continued progress in terms of decentralization. As noted in Chapter 2, The Nyusi government chose to negotiate in 2018 and give in to some of Renamo's main demands in this regard. This included the election of provincial governors, a move sustained after the death of Renamo's leader

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[2] President Guebuza succeeded Chissano in 2005; Filipe Nyusi took over in 2015 and in the 2019 elections won a second term in a disputed landslide victory (Pitcher 2020).

Afonso Dhlakama. However, the introduction of a provincial secretary of state nominated by the president of the republic alongside the elected governor illustrates the continuing juggle.[3]

## 2.2 Socioeconomic strategy and context

The collapse of former allies in Eastern Europe and elsewhere in the global arena, the ongoing war, and an economic state of affairs that reached a historical low point in Mozambique in 1986 forced Frelimo to change economic course from 1987 onwards. Negotiations for support from the Bretton Woods institutions and a range of Western donors (in addition to the Nordic countries, which were present from very early on) began after the signing of the Nkomati Accord. Subsequently, the government agreed a comprehensive deal with the Bretton Woods institutions and the Paris Club creditors in 1987. This introduced a five-year Economic Rehabilitation Programme (PRE), which meant a drastic U-turn in economic policy.

In retrospect, the misfortune for Mozambique is that the Structural Adjustment Programme (SAP) was as inadequate for a country at war, as the ten-year development plan had been. Both short-run and longer-term consequences were dismal. In the short run, no supply response from agriculture was possible due to the overwhelming effects of the war; and in the longer term, the PRE introduced a deep-seated structural economic and political imbalance between Frelimo and Renamo. Put differently, while Cramer (2001) argues that the privatization inherent in the adopted programme was both hasty and careless, it also sowed a seed of political fragility that has led to continued polarization and instability with frequent outbursts of violent conflict. Unequal economic and power relations added to pre-existing regional, ethnic, and religious tensions.

To be clear, Pitcher (2002, 2020) notes: 'the first democratic elections of 1994 ideally placed [Frelimo] party members and their families to take advantage of most policies regarding privatization and the creation of a market economy'. Renamo associates were in no position to benefit, as they were still fighting in the bush when assets and opportunities were privatized. Frelimo also treated them with suspicion, and they have since found it very difficult to establish themselves in the evolving legal and economic environment. What this means is that political and economic power merged in the hands of the former socialist FRELIMO elite.

The linkages between the Frelimo party and business are intricate (see Pitcher 2017; Cortês 2018) and the extent of Frelimo party member participation in key business activities and interests across the economy and its sectors stands out. Pitcher (2017) further argues that, 'as might be expected in a locale where the private sector is fragile, they rely on state-party connections to secure and protect business opportunities'. Accordingly, the lack of effective separation of state and party that had existed under Frelimo's one-party rule remained in place. Moreover, this opened up possibilities for rent-seeking and elite capture.

Meanwhile, Mozambique continued to receive very significant inflows of foreign aid that financed public expenses and major infrastructure investments. Aid dependence became a key characteristic, and has been hugely important for the funding of public expenditure, including critical investment in human capital and infrastructure and much-needed humanitarian relief. However, aid has also been associated with the side effects of aid dependence, including Dutch disease, lack of agency, and undermining of local institutions. Arguably, the pressure for the country to be more productive

[3] This is described in detail by Kössler (2018).

and develop the much-needed private sector, including the rural economy as a priority, appeared less pressing to policy-makers.

In parallel, the public sector grew significantly, in large measure due the inflow of foreign aid. Yet public efficiency and effectiveness are well below capacity. Social spending is comparable to that of neighbouring countries, but outcomes in Mozambique are inferior, and geographically uneven investments in public services have contributed to increasing inequality between the regions of the country.

The weakness of both the domestic political system and the private sector referred to above, including extensive links between the holders of political office (also the most educated cohort) and owners of private firms, is now embedded in Mozambique. One consequence is the almost complete absence of an independent non-political capitalist class. Another linked characteristic is the lack of contestation in political and economic life. To illustrate, the current electoral system relies on closed party candidate lists, which means that while party members are in principle accountable to the people, they are in reality foremost accountable to the party, both for their election and in their ability to access business opportunities.

This dynamic has manifested itself in a variety of ways, and it intensified considerably in 2006 when international companies were granted exclusive rights to explore and exploit oil and gas off the coast of Cabo Delgado (and especially after the confirmation of the existence of massive deposits of natural gas in the Rovuma Basin in 2010). It became apparent that the distribution of income and assets in Mozambican society for generations to come were in play, so the political and economic stakes of maintaining control multiplied manifold. President Guebuza, who came to power in 2005, strengthened the hold on state institutions and replaced many technocrats in leading government positions with politicians. He also used the extensive powers allotted to the president by the Mozambican Constitution to secure loyalty to the party in all three pillars of the state. We give two examples of elite control and corruption to illustrate the many-faceted effects of these unfolding dynamics.

The first is the 'hidden debt scandal' that erupted in 2016, and which has deeply affected both the economic and political climate in Mozambique and the country's relations with the international community over the past five years. The second example is that industrial policy formulation has since the PRE followed a mixed and piecemeal approach, with no clearly articulated and commonly agreed vision. Among the successes, the sugar rehabilitation strategy stands out. Whitfield and Buur (2014: 131) largely associate this success with three political factors: first, sustained political support from a faction of the Frelimo ruling elite with mutual interests with a group of foreign sugar companies; second, the ability of that faction to overcome resistance to implementation inside and outside the ruling coalition; and third, the ability of the state agency implementing the strategy to enforce the rules structuring the sugar companies' access to rents. Such successes are, however, far from standard across the board.[4]

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[4] Examples of success include the sugar-processing companies, a tobacco leaf company, rehabilitated cement factories, the rehabilitation of the hydropower plant of Cahora Bassa, a natural gas power plant in Maputo province, an electric power line linking Cahora Bassa hydropower plant to the south of the country, electric grid lines linking district headquarters, the Mozal aluminium smelter, and new or rehabilitated hotels in most major cities. In terms of failed investments, one can highlight Mabor vehicle tyres, steel producers Companhia Siderúrgica de Moçambique (Cifel) and Companhia Moçambique de Trefilaria (Trefil), and various textile and clothing factories (Sutton 2014: 7, 137, 149). Lastly, the Moamba Major dam, Mphanda Nkuwa dam and hydro-power plant, and Ncondezi coal power plant,

Solid macroeconomic management played a key role in addressing the economic crisis that erupted following the hidden debt scandal in 2016 and will also be crucial looking forward when gas revenues start flowing, with a particular focus on developing the supply side of the economy. Most of the population continues to be highly dependent on low-productivity informal activities, such as smallholder agriculture, and is vulnerable to economic, political, and environmental shocks. It is becoming increasingly evident, as witnessed by the 2019 Cyclones Idai and Kenneth, that Mozambique is among the countries most prone to the effects of climate change, including weather shocks and natural disasters. The vulnerability of Mozambique and its population is also evident in the ongoing Covid-19 pandemic. While the crisis is still unfolding, it is clear that it will have serious repercussions for both the economy and the Mozambican people. Negative spillover from the global economic downturn will no doubt be sizeable, restrictions to domestic movement will further affect economic activity, and significant increases in the poverty rate, food insecurity, and the number of poor people are likely over the short and medium term.

Summing up, the above developments, combined with Frelimo's continuing inability to promote agriculture and broad-based private sector growth, help to explain why Mozambique remains close to the bottom of the scale in terms of GDP and human development, in a context where rent-seeking is on the rise and the polarization between Frelimo and Renamo remains tense. Returning to the fork in the road, in terms of development strategy it would appear that Mozambique essentially faces a choice. Remaining on the present path would lead to increasing inequality, further regional imbalances, and possibly armed conflict. The alternative is to use the expected gas revenues effectively for poverty reduction, in a process in which agricultural development and agro-industry, as well as labour-intensive private sector advance, are central.[5] The added bonus of the alternative strategy is that should gas revenues disappoint due to the global energy transition and a glut of gas, then a more dynamic and poverty-reducing agriculture would have been built.

### 2.3 Institutional performance: international datasets, quantitative survey, and key informants

*International databases*

Having laid out the historical, political, and economic context, and to help identify the main institutional weaknesses, we started compiling insights from selected available data (Worldwide Governance Indicators, World Economic Forum, the Transformation Index of Bertelsmann Stiftung, and Varieties of Democracy) on different institutional dimensions. We compared the performance of Mozambique with that of neighbouring countries (Tanzania, Malawi, and Zambia) and with peers (Uganda, Ethiopia, Vietnam, and Lao PDR), selected based on geographic criteria as well as level of income and similarity in terms of historical factors and economic characteristics either past or present. Bearing in mind the caveats of this type of analysis,[6] we drew up a list of observations.

Overall, Mozambique's comparative performance deteriorated between 2005 and 2018. We uncovered more detail by focusing on broad institutional dimensions and describing either the

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and various processing plants based on coal and natural gas raw materials, can be pointed out as cases of delayed investments.

[5] See Jensen and Tarp (2004) for model-based insights about the importance of an agricultural-development-led industrialization strategy (ADLI) in the Mozambican context.

[6] Resulting from wide confidence intervals and from variations in the databases from year to year.

differences between two points in time (2005/06 and 2018/19/20) or the trend over the period 2005/07–19. More specifically:

- focusing on the most recent period, Mozambique showed particular weaknesses in terms of rule of law and judicial independence when compared with the other countries;
- the declining trend was also striking when looking at indicators of political participation in comparison with the performance of neighbouring countries, although Mozambique still outperforms peer countries in this indicator;
- Mozambique's performance declined in terms of the monopoly of the use of force as well as political stability and absence of violence;
- while we observed a weakening in government effectiveness, Mozambique's score in political corruption remained relatively stable, with an increase in 2017, probably reflecting the hidden debts scandal;
- finally, unsurprisingly in light of the events alluded to in the previous sections, the position of Mozambique in terms of international co-operation fell between 2006 and 2020, even though it retained good performance in terms of regional co-operation.

*Quantitative questionnaire and key informant interviews*

In Chapter 3 of this volume, we then combined these observations with an analysis of the perceptions of institutional constraints to economic development in the country, based on the results of a quantitative questionnaire and insights from our interviews with key informants. The quantitative questionnaire covered 149 individuals, affiliated with different sectors (from public administration to the business sector and non-governmental organizations/NGOs). We complemented the quantitative analysis with qualitative evidence obtained from over 50 hours of interviews with key people in the country, including politicians, businesspeople, academics, and liberal professionals. We highlight the main issues that emerged, which are broadly in line with the analysis of the data provided in international datasets, as elaborated in the previous section.

In the first part of the quantitative questionnaire, we asked respondents to select what they thought were the main obstacles to economic development in the country. The key areas that emerged as the most selected choices were human capital, poverty, and inequality, as well as management of public administration and a common vision of national strategy.

Respondents in the key informant interviews agreed that low state capacity and lack of independence from private interests are major reasons why institutions are not performing well in Mozambique. Low capacity is partly associated with widespread corruption, regularly believed to have roots in the co-mingling of business and politics but also in the complexity of laws and frequent changes to institutional arrangements related to regulation and enforcement. There is also a perception that the state has never gained full capacity to finance its costs, since it has been too dependent on aid. Low levels of education hamper law enforcement, exacerbated by the fact that recruitment and promotion in the public service reflect not professional merit but alliances and loyalty.

Personnel selection and promotion are not transparent or based on the merits of professional qualifications and results. Many qualified professionals leave state institutions due to low wages or a non-motivating work environment. To illustrate, criteria for promotions at the level of the national director no longer include experience as provincial director. Moreover, at the district and local levels state representatives often do not have sufficient qualifications to carry out their duties. This is highly problematic: the role of the district administrator is essential, as the individual ability to plan and implement at the district level affects the lives of many people. Yet district administrators, who have an ambiguous mission, are appointed with reference to political loyalty, and most of them are not properly trained. This, combined with a chronic mismatch between resources and plans, leads to district administrators not being assessed on results, so the entire public planning exercise becomes of secondary importance.

While there was disagreement as to whether the number of civil servants is too high, there was almost consensus that Mozambique has too many ministries and related institutions, and that there is too much remodelling of the government structure. The competencies between sectoral ministries and their subordinate institutions are often changed for short-term political gains. The lack of clarity in competencies confuses responsibility and exerts a heavy weight on the budget. For many respondents, the state apparatus serves the purposes of offering jobs to acquaintances, family members, and 'comrades' and of creating a politically loyal group. The consequence is an ineffective and expensive state that fails to meet the need to provide public services to the population.

The second part of the quantitative questionnaire elicited detailed information by asking participants to state their degree of agreement with 156 statements organized into 18 thematic areas that covered different institutional dimensions. The answers failed to provide a consensus of opinion on a specific group of constraints. Still, they highlighted the importance attributed to issues related to legal and constitutional matters, public protection, and provision of public goods and services. A closer look at the respondents' opinions also emphasized the resolution of land issues and corruption in the business environment and public administration as problems in Mozambique, as referred to above.

Weak law enforcement and dispute resolution reflects the fact that the judicial apparatus is heavy, dispersed in the territory, and inefficient. While much investment has taken place in palaces of justice, not much has gone to the efficient management of the different entities that operate in these buildings. There is also huge inequality in the resources available to the courts in the national and provincial capitals compared with the resources in the districts.

Respondents shared the perception that there is no independence of the judiciary from the executive. Some believe that this dependence stems from the fact that the president of the republic appoints the judges, who lead the Supreme, Administrative, and Constitutional Courts, as well as the attorney general of the republic. This, in their assessment, creates an opportunity to demand loyalty, and some serious criminal cases are not brought to court.

On the theme of low levels of education, key informants noted that there has been a high level of investment in education since independence. Mozambique has achieved significant results in the number of people who have been educated. However, there is a lack of quality in education at all levels: primary, secondary, higher, and technical-professional. The practice of allowing all students to move to higher education levels without having achieved minimum quality standards represents a major failure of the education system. The proliferation and subdivision of universities and other institutions of higher education are opposed to the objective of improving the quality of education.

It has been estimated that more than 300,000 young people enter the job market every year (AfDB et al. 2012). This represents a very high number of people who need to find jobs. At the same time, there is a demand for training and qualification of personnel in new areas, such as cybersecurity, robotics, and artificial intelligence. Universities must also invest in these areas. Unfortunately, national policies continue to focus on traditional fields, neglecting the new areas of science and technology.

One particular area in which there seemed to be less consensus based on the results of the quantitative questionnaire relates to external co-operation. While there was some indication that respondents find events in neighbouring countries to have negative effects on Mozambique, they also identified the degree of collaboration with these countries as an institutional strength. We delve more deeply into this theme in the synthesis in the next section of this chapter.

## 2.4 Summary of thematic studies

Together with the background information on the history and socioeconomic development of Mozambique, the insights from the above analysis pointed us to the selection of the areas addressed in the thematic studies. More specifically, *agriculture* and *natural resources* are clearly crucial sectors for achieving sustained growth and tackling poverty and inequality. The issues raised in terms of state capacity and a lack of common vision are covered in the different chapters dealing with *public financial management* and *decentralization*, as well as *education*, *health*, and the *financial sector*. Both the quantitative questionnaire and the key informant interviews revealed legal and constitutional matters as an important area, which led us to include a chapter on the *legal sector*. Finally, we dedicated a chapter to *relations with donors* given the manifest relevance of this topic in the context of Mozambique, as revealed from the background analysis, quantitative questionnaire, and interviews with key informants.

We asked a carefully selected group of experts who have first-hand experience from work in policy-making and research to uncover the main institutional weaknesses and their underlying causes in these thematic areas. We summarize key insights from these studies (included as Chapters 4 to 12) in what follows.

*Agriculture*

The agriculture study (Chapter 4) by Carrilho and Ribeiro brings out clearly that the peasantry and the development of agriculture and the rural sector have over the years remained *de facto* a low priority in development efforts, and that much-needed productivity growth has been both slow and unsatisfactory. Incapacity to implement strategies and plans that have been formally announced has been evident. In parallel, the organizational framework for planning and the support of the agriculture and rural sector has suffered from frequent changes responding to short-run political convenience rather than long-term fundamental needs for inclusive growth and poverty reduction. This is reinforced by the existing lack of consensus over a broad range of issues about how to confront the agriculture and rural challenges in support of sustained growth.

For future progress, it is essential that political violence and armed conflict end, that government ensure that the sector gets the precedence it requires in national plans to contribute effectively to the reduction of poverty and inequality, and that this is both in rhetoric and in practice. A laissez faire approach will not unleash the productive potential of the sector. What is required instead is a comprehensive and consistent set of public sector interventions and support to address the many externalities and co-ordination issues associated with agricultural production and transformation. Also looming is the need for agricultural development to address effectively the existing regional imbalances.

While pertinent legal regulations exist in many cases, they are often not adhered to and only some 30 per cent of the land is registered with user rights. Peasants' needs, including the need for secure access to land, are quite well understood, but low state capacity in delivering services and inputs and lack of access to the legal system are severe constraints. Furthermore, agriculture is a potential victim if the gas economy is allowed to undermine Mozambique's comparative advantage in agriculture, while population growth, climate change, and the Covid-19 pandemic provide compelling arguments for action in support of agriculture in both the short, medium, and long term, keeping in mind that should the gas windfall disappoint, a dynamic agriculture (an area in which Mozambique has a well-recognized comparative advantage) will have been built.

*Financial sector*

The focus in the thematic study on the financial sector (Chapter 5) by Osman and Osman is primarily on financial inclusion. The key challenge is how to get the financial system to extend financial services to the so far largely excluded (rural) poor and micro and small enterprises (MSEs) with a view to helping to unlock their growth potential. Other hurdles are also discussed. Financial inclusion alone may not provide the poorest segments with the skills and competences they need to find pathways out of poverty. Against this background, financial literacy is identified as a key issues and a precondition for the possibility of providing these target groups with credit and access to other welfare-enhancing products (e.g., insurance).

While the authors note significant progress over time in average financial inclusion, there is a critical imbalance between urban and rural areas. Urban residents/entities dominate progress, in both absolute and relative terms, whereas progress has been much more limited in rural areas (outside of the south). Furthermore, the very high rates of overall bank profitability reflect the fact that banks avoid the risky business associated with serving the poor (and MSEs).[7] This exposes once again the lack of ability of the state to implement strategies and plans that have been formally announced.

High nominal interest rates and the high administrative costs associated with small loan/deposit values play a key role. In particular, the mandate (focus) of the central bank (Bank of Mozambique), and the direction of macroeconomic policy, is not oriented towards supporting productive activities at the base of the economy, but rather the contrary—i.e., it is not pro-poor. Moreover, and specifically in the absence of land titles, individuals face difficulties in providing effective collateral, as is the case for the incipient entrepreneurial class.

Recommendations include a 'guarantee fund' to cover the difference in value between the collateral an MSE can actually post versus the value of the loan; and an initiative to subsidize/incentivize the presence of e-money or banking agents in each district (i.e., a mandate to develop markets where they are missing). In addition, there is a need for oversight/regulation to avoid abusive practices (as have become common among micro-lenders). Finally, the central bank could be requested to keep mandatory reserves as a proportion of the money lent to MSEs.

*Education*

As described by Mário, Monjane, and Santos (Chapter 6), despite the impressive increase in the schooling rate, significant problems remain in terms of the quality of education. For instance, less than 5 per cent of the students in the third class achieved a developed reading competence and less than 8 per cent fulfil the requirements for their level in terms of maths skills. The analysis highlights different pedagogical deficiencies, such as absenteeism, very high student–teacher ratios, and poor preparation and control of teachers' work, as well as shortages in teaching materials and lack of classrooms.

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[7] This is not unique to Mozambique and tends to be characteristic of most African banking systems.

The key line of argument indicates three underlying institutional dimensions to the low quality levels of learning. The first relates to weak state capacity in the provision of education services. The demographic pressure on primary education brings out weaknesses in terms of the number of classrooms and teachers. While the education sector receives an important share of the state budget (17.2 per cent of the entire 2018 state budget, according to UNICEF 2018), this is still insufficient to fulfil the needs in terms of the equipment, human capacity, and skills required.

The second institutional dimension relates to international support. While the financial support of international partners has been necessary, given the aforementioned financial shortages, it has also created dependence mechanisms and meant that decisions reflect conditionality from these partners, including over-ambitious policies and targets. Additionally, even if external donors provide financial support in terms of creating infrastructure, they do not finance a significant part of maintenance and other recurrent costs, including salaries, which account for the lion's share of the budget.

The final dimension relates to the weaknesses in the accountability of the public school system, which should enable the involvement of parents and the community in school management.

*Health*

Despite the investment in infrastructure and the progress since peace in 1992, current health indicators show a precarious health status for most Mozambicans. In Chapter 7, Garrido highlights different problems and argues that the deficiencies and inefficiencies in the functioning of the health sector are not least a result of a minority of privileged people controlling the main institutions in health sector and not *de facto* prioritizing the basic health needs of the majority of the population. Thus, there is weak state capacity to prioritize the health sector due to lack of political will, as well as lack of autonomy from private interests.

The problems include several instances of irregularities in legal compliance and enforcement (e.g. selection of people to health care positions without public tender) and the fact that the citizens' right to health care is neither clear in the Constitution nor sufficiently protected. Additionally, the health care system does not yet cover the entire territory and does not meet the basic needs of citizens either in urban or in rural areas, with political instability and violent conflict creating further challenges. While policies and plans in the health sector have been adequate, there have been several problems with their implementation. The international community has heavily influenced health policies in Mozambique not only in terms of priorities, but also in terms of budget allocation decisions, some of which were not feasible given the capacity constraints in the country, undermining the quality of the services provided and the credibility of the sector.

*Decentralization*

Forquilha stresses in Chapter 8 that while the process of decentralization is potentially an important means for democratic consolidation and for 'good governance', the impact of the decentralization reforms on governance in Mozambique has so far been very modest. The comprehensive overview of the links between the formation of the political systems in Mozambique and the emergence of decentralization reforms shows how the results of the latter have been conditioned by the political system.

During the period after independence, the centralization of the state resulted from the legacy of state control from the colonial times and the Marxist-Leninist orientation adopted by Frelimo. The political and economic reforms in the late 1980s and early 1990s were central to the decentralization process. Even if external pressure was important (within the realm of the good governance agenda), decentralization was also part of a process of conflict management and relegitimization of the state at a time of peace-building and democratization. Still, the implementation of the reforms has not been a pacific process or one based on consensus.

Decentralization has been a way to occupy political space to reinforce state control and to benefit the elite, rather than a means to improve public service provision and strengthen democracy. This can be seen as a form of elite capture, in this case of the decentralization law. Three different reforms are used to illustrate this argument, and they show that while different institutional dimensions have had distinct effects on the implementation of these reforms, state capacity and autonomy from private interests have been a pervasive conditional factor in all three.

*Public financial management*

As is clear throughout this volume, Mozambique is a country case that has seen fragile socioeconomic change since independence in 1975. In Chapter 9, Cruz and Mafambissa provide a detailed account, and put this in perspective with reference to the impact on public financial management (PFM). Their historical record is both detailed and insightful as regards achievements and the complex process of policy-making that Mozambique has undergone. More specifically, they identify those factors that affect the way government uses fiscal resources to help foster economic growth as the basis for development. As such, the chapter links directly to issues of the capacity to implement declared plans and strategies and the administrative capacity of the state to carry out its functions.

The PFM system (including both its objectives and its procedural aspects) was indeed reformed and improved significantly during the period before and after the turn of the millennium. However, the PFM system weakened markedly after 2013. Against this background, attention is given to three themes that cut across several of the thematic chapters in an integrative manner.

- Frequent changes in economic growth strategies led to instability in the design and operation of the PFM. If the goal of the political game is economic growth, then the strategy dictates the rules (written and unwritten[8]) to be followed by the government, politicians, civil society—including enterprises and individual producers and consumers—and the international community. Moreover, such a strategy should have the necessary sources of financing identified, and this is where the role of the PFM system comes in. When these rules change, the system will be in flux, affecting the capacity to deliver.
- Constitutional law argues for the principle of separation of the executive, legislative, and judicial powers as the basis of a liberal democracy and rule of law and highlights that when the executive operates independently from the party in power it creates more opportunities for checks and balances. These principles have not been adhered to, and this has undermined the effectiveness and impact of the PFM system.
- The insufficient degree of decentralization has distorted the functionalities of the PFM system, leading to a system that does not deliver on declared priorities.

The current growth strategy relying on the exploitation of natural resources seems to be failing, and an alternative balanced growth strategy is put forward in the context of an effective democratic

[8] Examples of written rules include the Constitution, annual government budgets, sector strategies and plans etc., while unwritten rules include the access of the elite to, for example, commissions in economic deals under the supervision of public entities, or privileged access to land use rights.

political system where the policy priorities required to foster sustainable and inclusive development are clearly identified. The PFM system needs to be reformed accordingly.

*Dispute resolution*

Trindade's thorough account of the judicial system in Mozambique (Chapter 10) highlights weaknesses in terms of rule of law and judicial independence. While there have been different attempts at reforming the judicial system, mainly after the Constitution of 1990, they were of an immediate and cyclical nature and were a result of internal and external pressures that were not always clear or convergent. Additionally, some indicators point to poor performance in the sector. For instance, comparing the movement of court lawsuits between 2012/13 and 2018/19, one observes an increase in the number that were carried out. Nevertheless, there is still a significant number of pending cases.

There is a need to implement structural reform, which will be viable only if there is a systemic, integrated, and co-ordinated view among all actors and willingness from policy-makers. The different elements that this structural reform would entail point to two main institutional weaknesses. On the one hand, they relate to a lack of state capacity applied to this sector. Structural reform would require a shared strategic vision and a degree of consensus between the relevant actors, and the judicial operators should play a central role in its different stages. The reforms should also proceed with reference to the democratization of the constitutional and operational methods and processes of the judiciary. Two additional suggestions emphasize the need to strengthen the training of judicial agents and to restructure the alternative mechanisms for conflict resolution and community justice. On the other hand, they point to the need to ensure the independence of the judicial power and to change the paradigm of legislative production.

*Donor relations and sovereignty*

A key chapter in this volume is the study on donor relations and sovereignty (Chapter 11) by Flentø and Simao. The point of departure is the observation that during the struggle for independence from Portugal and the first three decades as a sovereign country, Mozambique relied on international solidarity and managed donor relations well. Against a background of an extraordinarily favourable international environment regarding development co-operation, and in a setting where donor countries had little or no other interest in Mozambique than aid effectiveness, the Mozambican government adapted to donor-prompted reforms and mitigated the associated loss of agency. The government allowed the donors to challenge its capacity but never its authority.

This has changed in the last decade. Donor countries started to express increasing disappointment with the reform process and began to openly challenge the government's legitimacy. This change is not only associated with developments in Mozambique. Donor countries have become much less enthusiastic about long-term, and especially harmonized, development co-operation. Aid budgets are under pressure and development finance has become much more linked to other donor-country foreign policy concerns, especially those related to security and commerce. This has changed donor yard-sticks and their modus operandi. Accordingly, Mozambique should expect increasing and significant instrumentalization of aid budgets by donor countries, meaning that in the coming years it will have to be able to access and address other concerns of its partners than those of poverty alleviation, human rights, and democracy.

This is a challenge because the aid architecture and institutions Mozambique developed to deal with donors are not well suited for these new challenges. They separate and focus on a part of the relationship with foreign countries that is becoming less relevant and often serves as a vehicle for other agendas. Reforms should, probably, start with a strengthening of Mozambique's Foreign Service as genuine co-ordinator of foreign relations and the establishment of more discipline around national plans and strategies to improve state capacity.

A domestic, political dimension, and an often ignored part, of external finance is the delays and destruction of projects that elite infighting and rent-seeking cause to programmes and projects financed by donors and foreign direct investment (FDI). When elements from different factions of the elite (Frelimo) are poisoning and stealing each other's projects (rent-seeking or not), this helps to create corrupt or 'do nothing' overcautious behaviour in vital institutions prioritizing, co-ordinating, and approving vital investments for economic growth.

In sum, the 'donors' financial body language' used during the past decade has not provoked regime change or a change of attitude in the Frelimo leadership. Rather to the contrary, it may have helped to strengthen the resolve of the party leadership, as the Mozambican economy proved remarkably resilient to the financial crisis that followed when donors and investors froze loans and aid funds. Events illustrate that the sentiment of entitlement remains very strong in Frelimo, where many continue to equate sovereignty with the party's grip on power.

*Natural resources*

Chapter 12 moves into the unfolding and necessarily forward-looking role of natural resources in Mozambique, especially large-scale investments in mining, oil, and gas. Macuane and Muianga bring us up to date with what is happening in the sector, and make an assessment from an institutional perspective of the prospects of the natural resources/extractive industries to contribute to economic transformation.

Mozambique's wealth of natural resources is widely expected to generate new revenue streams in the medium and longer term. This could stimulate the economy, turning assets under the ground into assets above the ground, and allow for more investment in infrastructure and key social sectors, as well as agriculture. Nevertheless, there is reason to sound notes of caution and allude to the significant risks and constraints associated with major resource booms, which carry with them both potential pitfalls and benefits. The pitfalls include increased reliance on income from natural resources, depending on a few large foreign companies, and the observation that Mozambique has experienced a 'bust before the boom', reflected in the hidden debt (corruption) incurred during the era of President Guebuza.

Mozambique has indeed carried out institutional reforms to respond to the increasing importance of natural resources in the economy. They include passing extensive legislation with a focus on the mining, oil, and gas sector and its respective tax regimes, joining the Extractive Industries Transparency Initiative,[9] and the creation and strengthening of administrative regulatory and accountability institutions, combined with increasing participation of members of parliament and civil society in policy debates. While these reforms have improved the governance of the resources sector, their impact on economic transformation is harder to establish, and issues of state capacity remain.

Long term, Mozambique will be affected by the global energy transition now underway, which will significantly weaken the market for coal and, eventually, natural gas—thereby potentially

[9] Mozambique joined in 2009 and became a compliant member in 2012.

'stranding' the country's fossil fuel assets. Proper public expenditure management and systems are essential to ensure that investments yield adequate returns. Accordingly, one way to improve co-ordination is through a fiscal regime and institutional mechanism that define the scope of public expenditure in areas related to structural transformation, especially sectoral policy, and domestic and human capability development. This could be combined with initiatives regarding local content and industrial policy as part of a broader development strategy. Local procurement regulations have largely failed to increase participation by local firms in value chains. Training can raise the capabilities of local firms and allow them to enter the value chains, but government and the resource extraction companies must agree on the design of training and the qualification processes for local firms to achieve 'approved vendor' status.

## 3 The institutional diagnostic

We turn now to the institutional diagnostic illustrated in Table 1, where we bring together the material accumulated so far. Starting from the column of basic institutional weaknesses, the table can be read from left to right, with the right-hand column showing the major economic and social consequences of these institutional weaknesses. It can also be read from right to left, with a column showing the main proximate causes of the institutional weaknesses and a left-hand column displaying the deep factors that ultimately determine the feasibility of reforms that could correct the proximate causes, improving the institutional weaknesses and supporting socioeconomic development.

An important caveat is that logical implications go from column to column, not from one item in a column to the item in the same row in another column. In other words, it is sometimes the case that several or all items in a column depend on, or jointly determine, the items in another column. It should also be kept in mind that the relationships between the items in different columns, and within a column, may be circular.

Moreover, we make no claim that the dividing lines between deep factors and proximate causes, on the one hand, and between proximate causes and basic institutional weaknesses, on the other, are beyond discussion. The reason for this juxtaposition is that the identified weaknesses are often more the symptoms than they are the causes of an institutional problem. A diagnostic must therefore start from the symptoms in order to go to the root of the problems, and then to the possible remedies, which themselves depend on which deep factors are at play.

Table 1: A synthetic ordering of the institutional factors impeding Mozambique's long-term development

| Deep factors | Proximate causes | Basic institutional weaknesses | Economic consequences |
|---|---|---|---|
| Physical and human geography<br>Colonial and socialist legacies<br>Neighbourhood with South Africa<br>Distribution of political power and weak political opposition (dominance of Frelimo, competition within Frelimo, and lack of voice)<br>Armed conflicts and political violence<br>Critical dependence on external finance (role of donors)<br>Contemporaneous: dominance of the natural resources sector and role of foreign companies and FDI | Lack of integration and diminished sense of unity<br>Lack of skills<br>Merging of political and economic powers (incipient entrepreneurial class and lack of market competition)<br>Lack of separation of executive and legislative powers<br>Instability of development strategies<br>Lack of agency in strategic and policy formulation<br>Elite capture and rent-seeking | Incapacity to implement strategies and plans that have been formally announced<br>Low state capacity (service delivery, decentralization, control over the territory, administrative capacity)<br>Dependence of the judicial power on the executive<br>Corruption, lack of transparency, and ineffective auditing | Lack of an inclusive growth engine<br>Slow reduction of poverty<br>Increasing inequality (horizontally and vertically and by gender)<br>Non-inclusive and inefficient financial sector<br>Low quality of education<br>Non-inclusivity of health services<br>Lopsided spatial (regional) development<br>Absence of business dynamics<br>Low level of domestic savings<br>Vulnerability to external shocks |

Source: authors' construction.

We begin in Subsection 3.1 by briefly reviewing the basic institutional weaknesses as they emerge from preceding sections. They are common to several of the areas subjected to thematic studies, and they were also the subject of attention in previous chapters. In Subsection 3.2, we address their proximate causes, which are themselves related to several deep factors described in Subsection 3.3. Our final reflections and policy recommendations follow in Section 4.

## 3.1 Basic institutional weaknesses (IW)

*IW1: incapacity to implement strategies and plans that have been formally announced*

At first glance, Mozambique is pursuing inclusive economic policies. The official policies and strategies have been formulated with the assistance of donors and approved by all relevant authorities, including the parliament. However, there are challenges in terms of their implementation. This goes for plans both at the national and at the sector levels.

A case in point with regard to the latter is the agriculture sector, which is blessed with well-conceived sector strategies and policies but receives low priority in practice. To give an example, Filipe and Norfolk (2017) point out that Mozambique already has many reasonable policies and legal frameworks for land administration, land use planning, and environmental management. However, they highlight the 'need for greater political will and stronger institutional capacity and commitment to the implementation of the legal framework for land, particularly to recognise land rights acquired in law and the role of traditional and community authorities in the management of the land use and other resources' (Filipe and Norfolk, 2017: 103). Similarly, while financial inclusion is well established as an aim, the necessary measures to promote bank lending to the rural poor and MSEs are not yet in place. Finally, influence from the donor community has led to over-ambitious and non-sustainable plans for social sectors including education and health.

*IW2: low state capacity (service delivery, decentralization, control over the territory, administrative capacity)*

A related institutional weakness is low state capacity. This comes across in many different dimensions. There is an important problem in the spatial distribution of state personnel. In many of the more remote parts of the country, government entities are simply not present. Additionally, large parts of the public administration are over-staffed with low-skilled and poorly motivated personnel lacking quality leadership.

The co-ordination of state functions leaves much to be desired, and while exceptions exist in areas such as PFM, including parts of the tax administration, and the natural resource sector, the general situation remains one of low-capacity administration at both central and decentralized levels. Recruitment reform has been implemented to secure better-skilled personnel, but inertia and significantly better remuneration in the private sector continue to be challenges. Absenteeism is high, and many public servants are chasing fringe benefits like travel allowances and are involved in other economic activities in the private sector. At the decentralized level, the special double role of the district administrators (as politicians as well as technical supervisors and co-ordinators) is challenging technical professionalism in a system already struggling with the impact of Mozambique's geography. To this must be added mandatory postings, far from large cities where career opportunities for spouses and education for children are much better.

Moreover, the low quality of education and non-inclusivity in access to health and financial services are symptoms of poor delivery of public services. The provision of electricity also illustrates weakness in the delivery of infrastructure. The public electricity company (EdM) fundamentally runs at a loss in spite of significant donor finance especially during the first two decades after the war. The company is recognized as an efficiently run entity from a technical point of view, with both technical and non-technical losses well below those of most of its sister companies in the region. The company's cost structure is unique, as Mozambique is home to one of Africa's largest hydro dams. Although EdM is obliged to pay transmission fees to ESKOM, South Africa's public electricity company, this has endowed EdM with an exceptionally low unit cost for generation and very high fixed costs to finance power lines in a huge and sparsely populated country. Yet only a tiny fraction of the Mozambicans living below the poverty line has a power supply. Access to electricity in rural areas is practically non-existent, and the potential of solar power remains unexploited.

Additionally, and as is clear from Chapter 2 and previous sections in this chapter, the Mozambican government has not fully controlled the national territory since independence. This is associated with both geographic characteristics (Mozambique is a vast country in which guerrilla activity is relatively easy) and socioeconomic factors. More specifically, the country remains poorly integrated in terms of economic and physical infrastructure.

This is linked also to the inability of the state to ensure security, as illustrated by the recent events in the northern province of Cabo Delgado, where a combination of looming domestic conflicts and external factors has erupted into significant military activity. It is noteworthy that while Mozambique's armed conflicts have traditionally been politically motivated and internationally backed and sponsored, none has been about religion. Intriguingly, the armed insurgency in Cabo Delgado is reported to be both 'home-grown' and religious—a war fought by a movement started by a group of young local Muslims with the sole purpose of installing a more fundamentalist practice of Islam. But there is much more than religion driving this powerful insurgency, and it has become a major challenge for the Mozambican government and army and strains state capacity to the very limit, if not beyond.

*IW3: dependence of the judicial power on the executive*

The formal separation of powers, especially the independence of the judiciary, is relatively recent in Mozambique, introduced in 1990 as a part of the constitutional reform package paving the way for peace and increased aid from the Western democracies. The process of implementing these institutional reforms is far from complete. There is still no independence of the judiciary and no effective separation of party and state, reflecting that the democratic institutions in Mozambique are young and weak.

Donor-prompted reforms in governance institutions have remained shallow primarily because the Mozambican elite has been reluctant to fully implement them. This is compounded by the fact that the Constitution gives the president extensive powers of appointment, with a systemic trickle-down effect in the justice sector. Strong affiliation with the dominant party is decisive for the careers and livelihood for judges, sometimes as much as their professional ability and integrity. This situation compromises peaceful conflict resolution and weakens fundamentals of society, from basic human rights to the business environment.

*IW4: corruption, lack of transparency, and ineffective auditing*

Corruption has been sharply on the increase in Mozambique since the mid-1980s. This institutional weakness relates not only to political grand corruption, illustrated by the case of the hidden debt scandal.[10] It also includes cases of petty corruption and embezzlement of public funds. Cases of Frelimo members, their families, and highly positioned civil servants who happen to receive commissions in the economic deals involving public entities, obtain privileged access to land use rights, and provide politically motivated cheap electricity to urban families illustrate this.

Turning to the lack of transparency, this is discussed in detail in IMF (2019), where it is highlighted that many critical databases, such as the company registry, the land registry, the movable property registry, and the notarial database, are either entirely or partially manual and are difficult to access and search. In addition, information remains in general fragmented among different government ministries, with the result that policies and regulations end up being contradictory.

The institutions combatting corruption remain weak and lack independence from political influence. Moreover, their technical and financial resources are limited. Audit controls are, as recognized in IMF (2019), not effective, opening up the possibility for both criminal acts (that might not be discovered) and misallocation and misuse of funds as a result of lack of information. While recent improvements have been noted in terms of transparency and the capacity to implement the tax regime in the natural resource sector, challenges remain—for example, in terms of the capacity to audit companies. Moreover, discrepancies continue to be reported between the revenues declared by companies and those declared by the Revenue Authority.

## 3.2 Proximate causes (PC)

Seven proximate causes stand out from our analysis (see Table 1). We discuss them in turn.

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[10] Other examples are described in Shipley (2019).

*PC1: lack of integration and diminished sense of unity*

Since colonial days, Mozambique has been a transit country, with backbone transport infrastructure that was built primarily to serve mining and farming in the much larger economies of South Africa and Rhodesia. Thus, the rail and main road networks run east–west. Little infrastructure serves north–south traffic and national integration, and rural roads serving farmers are few and far between.

Over the last three decades, donors have supported the government programme of investing in rehabilitating roads, bridges, and railways, or building new roads and bridges. However, the main investments were directed to serve landlocked countries. Only a smaller share of the investments was allocated to the north–south connection. This reflects the fact that projects undertaken had to meet established criteria as regards the internal rate of return, in which vehicle operation costs are a key determinant. Consequently, the large trunk roads in the east–west corridors serving the much larger economies of South Africa and Zimbabwe take priority, as there is much less traffic going north–south (due to the colonial economic model and the fact that RENAMO split the country in two and interrupted traffic south of the Zambézia river for 15 years). The bridge over the Zambézia in Caia was built only in 2009, and small rural roads to serve farmers have received only a small share of the road funds budget.

While the government has clear priorities in relation to overall connectivity in the country, including for security reasons, its own contribution to the transport sector, especially to maintenance, has not been sufficient. The collection of road users' fees in the form of vehicle registration taxes, import duties, and not least fuel levy has also been insufficient to cover expenditure. A further characteristic is that the government has subsidized fuel consumption to protect urban transport from strikes and riots.

The overall result is that the fundamental layout of infrastructure inherited from colonial days remains in place and that road maintenance is very expensive. Routine maintenance is deferred and migrated from the recurrent to the investment budget, where donors are more inclined to help finance major rehabilitations once the infrastructure has degraded substantially. This is a much more costly solution both in terms of the civil work itself and in terms of vehicle operation costs. The dynamic effects also include lack of capacity-building among the smaller local contractors that would normally compete for, and grow on, a portfolio of smaller works, not least routine maintenance. This is the segment of civil work contractors that a country like Mozambique needs for the maintenance of its rural roads network.

The modal split is heavily tilted towards roads. The public railways are running at a loss, and have been largely neglected since the days of the SAP. One reason is that the golden egg in the railway business is actually the ports owned by the Mozambique railway company (CFM). Prominent figures of the elite are involved with foreign companies operating the three deep-sea ports on concessions from CFM. There is much less interest in the rail lines, and the only real rehabilitations of railways in Mozambique during the last 25 years relate to and are financed by the foreign coal companies in Tete. However, the coal trains running through some of Mozambique's most fertile land do not carry other cargo than coal, and that only one way.

Importantly, the poor state of physical capital stock and infrastructure, in combination with a weakly Integrated Public Investment Plan (Plano Integrado de Investimentos Públicos), substantially constrain private sector development. This happens due to very high transaction costs, inherent in expensive and unreliable transport and communications.

While the sense of unity of the population of Mozambique was high at independence, this has gradually waned over the years. The continued polarization between Frelimo and Renamo is an integral element thereof, and the same goes for the deepening imbalance in development between the south, on the one hand, and the centre and north, on the other.

*PC2: lack of skills*

A true institutional disruption happened at independence when the overwhelming majority of educated and trained people (Portuguese settlers) left Mozambique and sabotaged assets on their way out. This meant that Mozambique (and other Portuguese colonies) started from a much lower point in 1974 than most former British and French colonies did in the early 1960s. While Frelimo prioritized education in the early post-independence years, little was possible during 16 years of war. Moreover, in spite of progress since the early 1990s, this lack of skills and educated people is endemic and hampers all aspects of socioeconomic progress. Similar issues reverberate through the legal and judicial system.

*PC3: merging of political and economic powers (incipient entrepreneurial class and lack of market competition)*

In the socialist system after 1977, the economic and political powers were merged by design. The SAP was meant to separate them, but this failed. The underlying assumptions behind large-scale liberalization and privatization to arrive at a competitive economy were simply not in place. Privatized enterprises were taken over by party members, civil servants, and army officers. Consequently, most public companies were either substituted by private monopolies or closed down.

Mozambique's first post-independence private entrepreneurs were overwhelmingly government officials and public servants who acquired public assets (sometimes at very low prices) in the privatization drive in the late eighties and early nineties. Since there were practically no private businesses in Mozambique during the socialist area, the new entrepreneurial class had to be recruited from public institutions, including the security forces and the government itself. For the liberation struggle to be meaningful at all, it was necessary to make sure that Mozambicans got the privatized state assets and not foreign capitalists, including Portuguese and South African business constellations that were very much reminiscent of colonial times. Furthermore, Mozambique was still a one-party state when the economic reforms were rolled out. RENAMO was not yet a political party but a guerrilla army fighting in the bush or waiting to be demobilized.

In short, Frelimo privatized the assets and, more importantly, the business opportunities to its own members. Some of the new Mozambican businesspeople had technical knowledge, but they rarely had the skills and mindset of an entrepreneur. Most were started off in private business with a public asset including some sort of exclusivity (licence, quota, geographic position, or contract for supplies to government) and continued to depend on government protection of their monopolistic position. Some of the new entrepreneurs went broke or liquidated the assets, but others continued and some arranged for foreign partners with capital and knowledge. Whether it was in fisheries, tourism, transport, export of primary products, or just general import trade business, regulations controlled by the government would be the key to profitable business. This is in part a logical consequence of the forces of liberal markets and in part a consequence of the deliberate and persistent exclusion of entrepreneurs with ties to the opposition.

The economic consequences are similar to those of state capture; the cure is not. In contrast to a political system where political parties are owned or significantly influenced by big business (e.g., as in Benin), the big business in Mozambique is organized by politicians[11] in a powerful structure where business owners cannot hedge their bets and finance the campaigns of various political parties (as seen in some former Eastern European countries and Russia).[12] If Frelimo loses elections, it is likely to be 'game over' for many of Mozambique's business owners and entrepreneurs in an environment where politics and business are closely intertwined. Everyone knows that their best and maybe only bet to stay in power and continue to harvest rent is to protect the party's interests.[13] Thus, the business owners oil the party machine, competition is kept internal, and the party has its own rules and referees, not depending much on (or needing) the dispute resolution institutions of the state.

Frelimo knows that it can win elections (be declared winner) with almost any presidential candidate. As the incumbent party, it can and does abuse state assets in the campaign, and more importantly, it has access to campaign finance in a completely different league to the opposition. Most of this money is raised from the businesspeople in the party, often with funds from their foreign business partners and associates. Campaign funding is raised in exchange for business relations with the state that are supposed to influence not only the general conditions of the exchange, i.e. the business environment at large or in a sector, but also specific deals. As such, conflict of interest at best, and more often corruption, is embedded within the system.

Moreover, as foreign trade liberalized and competition from much more efficient foreign companies commenced, the easiest profit and best business opportunities for Mozambican entrepreneurs were in trade in imported consumer goods and exports of primary products, tourism, and, not least, construction related to land development and privatized real estate. The government continued as a very large player in a small market for goods and services and as the regulator of all duties, licences, and permits. Combined with the effects of the revolving door, where businesspeople and officials enter and leave government frequently, the ties between the government and entrepreneurs become exceptionally tight

Associated with the intertwining of political and business interests and the characteristics of the Mozambican geography and economy, there is absence of genuine market competition in the economy. There is competition among different groups in the party, but this does not translate into making market mechanisms work.

*PC4: lack of separation of executive and legislative powers*

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[11] Mozambique is not a case of capture of government by a business elite, but of capture of business by the political elite. Moreover, the oligarchs had only limited experience to begin with. Furthermore, the primary organizer of business owners in Mozambique is not the employers' associations or their confederation (CTA). It is the governing party.

[12] See also Addison (2003).

[13] This is visible, for example, in relation to the business environment at large and related laws, licences, permits, etc. Much of the business in real estate is deeply dependent on the way the land law is administered, as land cannot be owned (the principle of 'use it or lose it' is not applied, and many hold land for speculation). Licences to do business in the import–export sector are heavily regulated, including customs tariffs, sometimes providing negative protection to help importers over farmers and local industry. Additionally, transport business (people and goods) is heavily regulated and many operators would be put out of business if the laws were applied. Coincidentally, Frelimo members or their families co-share the capital participation in various companies in the private sector. This indicates an overuse of political power to obtain economic power. In many public tenders to purchase equipment or participate in investment projects, companies have to pay a commission to government officials, which is not foreseen in the law. One justification for these commissions is that they are used to finance Frelimo.

Frelimo, as a dominant party, commands a majority—sometimes even a qualified majority—in the parliament and the party can thus vote almost all policy it requires through the legislative process. This logically weakens the separation of the legislative from the executive mandate, but such is part and parcel of democracy if elections are free and fair. A weak opposition leaves democracy wanting.

Manipulations of elections have taken place in Mozambique, where most observers agree that few elections have been free and fair (see, for example, Human Rights Watch 2019). The practices of manipulation of the list of candidates and voters register, limitation of observers' access, intimidation during campaign and on the day of election, and manipulations of results including ballot box stuffing and tinkering with the final tabulation have been reported by reputable observers at various elections in Mozambique (Human Rights Watch 2019). Disagreement has centred on the significance of these phenomena—whether the irregularities were substantial enough to have changed the bottom-line outcome, i.e., the majority in parliament or who becomes president. It seems, however, that most observers agree that things are not changing for the better.

*PC5: instability of development strategies*

Few countries have experienced as many chaotic political and economic changes as Mozambique both before and since independence in 1975, with frequent changes in strategy and the organization of key economic sectors.

After independence, Frelimo aimed at a drastic change in economic policy, adopting Marxist-Leninist principles. This proved unsuccessful, and the incipient attempt, at the Fourth Party Congress in 1984, at reorientation to focus on peasant needs sank in the middle of war. The SAP of 1987, including liberalizations and privatizations, represented another fundamental shift in strategy in almost all corners of Mozambique's society and economy. This shift happened only around a decade after independence and attempted not only to roll back not only the protectionist policies introduced by socialism, but also to reorganize many of the basic institutions of the economy.

While Frelimo has remained in power, fragmentation within the party led to strong regime changes at presidential elections. The resulting instability of development strategies has been characteristic, as illustrated in the quite different approaches to policy and reform pursued by presidents Chissano and Guebuza. The lack of continuity in strategic plans has led to redirection of policy and frequent changes of personnel in government and leading positions of public administration, which has weakened state capacity and the capacity to implement strategies and plans in a coherent manner.

*PC6: lack of agency in strategic and policy formulation*

Donor assistance and international solidarity was never enough to make up for the devastation of war and bad economic policy in the first half of the 1980s. As debt mounted and key allies in the socialist camp fell, Mozambique was forced to seek assistance elsewhere and adopt new economic policies in exchange for aid and debt relief. Those policies were standard recipes for former socialist regimes joining the Bretton Woods institutions. They made Mozambique pursue fiscal austerity, market-based reforms, and privatizations in a wartime environment where the economy was incapable of responding to market incentives.

What did happen when the SAP was introduced was that the Frelimo-government lost agency to donors. It was no longer in charge of policy formulation in macroeconomic management and key sectors. It concentrated its efforts on surviving and adapting to new rules of the game. The survival of Frelimo became dependent on satisfying the donors, implicitly by selling donor-prompted policies to the electorate by winning elections.

More recently, the decline in the importance of donor funding has opened up space for more independent agency on the part of the Mozambican government. However, Mozambique still remains highly dependent on external finance, increasingly in the form of FDI. This means that the country will in the coming years be dealing with foreign governments that will be driven by other concerns than those inherent in the aid process, i.e. poverty alleviation, human rights, and democracy. The lack of agency will therefore continue in a different form unless concerted action is taken.

*PC7: elite capture and rent-seeking*

Mozambique was moving in the direction of strengthened governance institutions for around 20 years, from 1994, as many international indicators show (see Chapter 2). One could have hoped that this development would continue, but this trend reversed due *inter alia* to the onset of the extractive industries and the pre-boom curse which started in the early 2000s, including hidden debts and economic crises. The fundamental curse of the pre-boom phase of extractive economies is exactly that they are characterized by huge opportunities for rents, which necessarily arise before extraction starts.[14]

Moreover, as there is no effective separation between party and state and big business, the stakes in politics were raised considerably after 2006 when international companies were granted exclusive rights to explore and exploit oil and gas off the coast of Cabo Delgado (especially after the confirmation of the existence of massive reserves of natural gas in the Rovuma Basin in 2010). It became apparent that the distribution of income and assets in Mozambican society for generations to come could be determined in the coming decade. This has been detrimental to the furthering of democratic and legal reform.

With a view to better competing with foreign interests for the rents of the oil and gas extraction, President Guebuza strengthened the party's hold on state institutions and replaced many technocrats with politicians in leading government positions. He managed to get an almost completely loyal politburo, and the extensive powers allotted to the president by the Mozambican Constitution were used extensively and secured loyalty to the party in all three pillars of the state.

Originally, this process created opportunities for rent and related earnings that kept the politically affluent segments of society satisfied.[15] However, the consequence for Frelimo of staying in power and managing the forced radical change of policy (and loss of agency to donors) was, as described above, that it became deeply intertwined with the leading domestic business community and public servants. The 'new' elite that emerged accepted capitalism and started using state control as a means of economic accumulation. This process intensified in the early years of the new millennium with the advent of natural resources, associated rent opportunities, and the centralist approach to governance pursued by President Guebuza.

Accordingly, the non-inclusive traits of the Mozambican economy amplified, and this explains—at least in part—why economic growth in Mozambique slowed down. A growth strategy based on

[14] See Roe (2018) for an illuminating overview of international experiences of relevance in Mozambique.

[15] These groups are heavily concentrated in southern Mozambique, especially in the capital, and to a lesser extent in a couple of large cities in the centre and north of the country.

mega-projects in infrastructure and energy will reinforce the underlying drivers of exclusion unless extreme care is taken in policy formulation and implementation. While FDI in extractive industries led to some infrastructure investments in the northern provinces, massive amounts of (loan) finance went towards infrastructure in the south, especially in and around the capital.[16] Both developments dramatically increased the value of land overwhelmingly owned by the elite and the urban middle class. A limited number of people made fortunes, at the expense of many. The public financing of infrastructure to benefit the private sector in general is not a phenomenon special to Mozambique. In fact, it is the rule of the game in most capitalist countries and part of the reason why people pay taxes. What matters is the quality of the infrastructure investments, or rather whom they benefit. Good infrastructure investments raise productivity in the economy. That does not happen with infrastructure development designed to create rent opportunities.[17]

The largest cost of rent-seeking and corruption is not the money stolen or assets appropriated. It is the summarized cost to the economy of all the bad (economically ineffective) decisions taken to create, or to avoid eliminating, opportunities for profits without production. Rent-seeking and elite grabbing seriously distort allocative efficiency in the economy at large. The much-needed possible alternative investment in true productivity growth is forgone, which is very damaging to a poor country where investment resources are scarce. Especially when large, public projects benefitting private elite business are loan-financed, this policy can drain a small economy and halt sustainable growth. Changing this dynamic stands out as a major challenge.

## 3.3 Deep factors (DF)

We now proceed to presenting the deep underlying factors which condition the viability of reforms that could correct the proximate causes, improving the institutional weaknesses and underpinning future socioeconomic development. We identify seven deep factors and aim in what follows to integrate them with the findings in previous sections, bringing out the correspondence across columns so as to ensure maximum consistency.

*DF1: physical and human geography*

As described in Chapter 2, Mozambique is a large, sparsely populated country with 25 main rivers crossing into the Indian Ocean and physically dividing the country, bordering Tanzania in the north, Malawi, Zimbabwe, Zambia, and Eswatini to the west, and South Africa to the south. The country is well endowed with natural resources, including the recent finds of major gas reserves in the north.

The high investment and transaction costs resulting from the vastness of the territory and its characteristics have always been a barrier to economic integration. We alluded above to the fact that infrastructure runs mainly east–west (an inheritance from colonial times) and that while some improvement has been made (with the support of donors) in terms of rehabilitating or building

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[16] The major infrastructure investments in the south are not justified by economic use, but rather by the massive rents (increases in land and real estate values) they would bring and the monumental effects on the president's legacy. Finance was not hard to come by due to creditworthiness from gas reserves and other barter trading with China and a few other countries.

[17] One could consider the Catembe bridge over Maputo Bay and the road to Ponta d'Ouro close to South Africa, costing together around US$1 billion (financed mainly from China), as an example. To put the cost into perspective, it would be possible to almost rehabilitate the north–south trunk highway N1 from Maputo to Nampula with the same money. Alternatively, one could get 1,800 km of good roads from the farmland to the towns and cities.

new roads and bridges, the north–south connection has received only a minor share of the investment. This had a further effect on the capacity of the state not only in terms of controlling and administering the territory, but also in terms of implementing the approved development plans and strategies.

Moreover, as evidenced by the 2019 cyclones Idai and Kenneth, Mozambique is among the countries most prone to the effects of climate change, including weather shocks and natural disasters. Weather shocks have been a recurring feature in Mozambique over the centuries, and their costs to the economy are massive. This has, since the independence, been the motivation for significant amounts of humanitarian aid to Mozambique.

Regional and ethnic fractionalization in the country have deep historical roots that go back to the time when different Bantu tribes were established in the territory. Subsequently, the Arabs began to have an influence from approximately 1100 CE. The effects of the encounter between Bantu tribes and Arab traders turned out differently among different tribes. However, the resulting ethnic diversity and the Arab influence remain present to this day alongside the colonial legacy and post-independence development experiences, including the drastic transformation of relations between certain ethnic groups due to the liberation war and post-colonial experience. This diversity has also resulted in economic fragmentation and is an underlying factor explaining differences in access to political power. The different ethnic power balances of the main political parties also come into play here, contributing to challenging the sense of unity in present times.

*DF2: colonial and socialist legacies*

When assessing economic development in Mozambique today, especially in relation to its African peers, it is fundamental to reiterate when and how Mozambique started as a sovereign country. It happened well over a decade later than in most other Sub-Saharan African countries and from an incredibly low point in terms of human development and governance capacity, due to an especially crippling colonial legacy.

Moreover, victory and independence came suddenly because of events in Portugal, at a time where the Portuguese security forces were still largely in control of 90 per cent of the Mozambican territory. Frelimo governed only a small fraction of rural Mozambique along the borders with Tanzania and in Tete province, and it consisted of an international lobby group and a guerrilla army hosted in Dar es Salaam and Nachingwea. Frelimo moved into this space and, almost overnight, had a huge country to rule after the departure of hundreds of thousands of settlers and the colonial exploitation and extraction of resources, combined with top-down management and distorted political economic structures. The almost complete dismantling of colonial institutions with the flight of the Portuguese left the country in a very difficult situation.

Frelimo made a concerted effort at nation-building, within a unified socialist vision of the nation. However, the introduction of a socialist-style planned economy was a shock to economic institutions, albeit in some areas less so than socialist propaganda might lead us to believe. Controlled prices, including on staples, were simply continued from the colonial system, just as many parastatals were continued with new, inexperienced leaders combined with upbeat rhetoric. Importantly, rural trade was not carried out by parastatals in colonial times. It was done by private traders who left in huge numbers, leading to total collapse in marketing and trade.

In sum, Mozambique has had precious little time to develop a modern state and society, and this helps to explain its ranking at the bottom of the scale in terms of GDP and the Human Development Index (HDI). This links to the continued lack of skills and low state capacity.

Moreover, the fact that Frelimo ruled Mozambique as a one-party state for almost two decades has impacted on the present biased distribution of political power and the merging of political and economic powers, including the lack of separation of the executive, legislative, and judicial powers.

*DF3: neighbourhood with South Africa*

Mozambique's location as a neighbour of South Africa has throughout history impacted very significantly on both institutional and economic trends in the country, and it continues to do so to this day. It determined how the economy was built during the colonial period, how the liberation struggle evolved, how the first 15 years of independence turned out, and the fact that southern Mozambique interacts with its neighbour in a very different way from the rest of the country. To illustrate, hundreds of thousands of migrant labourers from southern Mozambique have for many decades worked in the mines of South Africa and played a key role in transferring resources back to southern Mozambique.

Moreover, at the time when Mozambique gained its independence in 1975 (some ten to 15 years later than most other African former colonies), the apartheid regime's strategy of destructive engagement with the region caused havoc and economic destruction. Put differently, Frelimo did not have the same opportunities as other African governments did at the time of their independence. To this can be added the fact that RENAMO was supported by external forces (from South Africa and Rhodesia) as a guerrilla movement, skilfully exploiting domestic differences and contradictions (Pinto 2008).

Of particular importance, multiparty elections and universal suffrage were conditions for peace in 1992 not only in Mozambique, but also in South Africa. As the Cold War came to an end, and the African National Congress was no longer seen as a possible Soviet ally, Western countries mounted more pressure on the apartheid regime and the first free elections were held almost simultaneously in Mozambique and South Africa. This meant that borders and trade flows between the two countries were reopened, leading to increasing economic integration between southern Mozambique and South Africa.

Economic and social power was already concentrated in the south before independence, because of the South African economy. The moving of the capital from Ilha to Lourenço Marques[18] in the early twentieth century was due to the gold economy in South Africa. This move of the capital to the extreme south of a very large country because of important economic links with another, much larger economy cannot be over-emphasized.

Most of the modern-day elite and urban middle class live in southern Mozambique, benefitting from the neighbourhood with South Africa. They are not dependent on domestic agriculture for their produce, or for their export earnings and foreign currency to finance imports of consumer goods. Donors and a handful of large foreign companies in the energy sector provide for the currency, while South African and to a lesser extent Asian farmers feed the urban middle class and elite in Mozambique.

South Africa is a formidable competitor, with its advanced manufacturing sector and mechanized agriculture enjoying high levels of protection and subsidy. Maputo is much closer to the agricultural

[18] Ilha became the capital because of economic links with India (Goa), where Portugal ruled for 451 years until 1961. It was the declining importance of the Indian trade and increasing importance of South Africa (when it discovered gold in 1860) that moved the centre of economic gravity southwards.

heartland of South Africa than to its own rich farmland in the central and northern provinces. Infrastructure is better and tariffs are low due to economic integration in the SADC (Southern African Development Community) area and massive corruption in the customs services. Mozambique has not only been buying agricultural goods from South Africa but also purchasing all sorts of consumer goods (durable goods, garments, medicines, etc.), construction goods, and other services to enterprises; tourist services (hotels and restaurants); and houses, as well as using medical services (combining medical and tourism services in many cases). Mozambique has contributed to South Africa's economy since 1993, in particular in the Mpumalanga region, rather than prioritizing its own industries and services.

South African supermarket chains have expanded into all provincial capitals and cater overwhelmingly for the middle class, with products imported from South Africa and Asia. Even the staple food of most city dwellers is imported. White bread is the staple of choice of the urban population, rich and poor. Mozambique produces no wheat (for climatic reasons) and bread is heavily subsidized.[19] This de-linking of the urban middle class from its own agriculture is a fundamental problem for inclusive development in Mozambique, and it is a growing one. As the infrastructure developments especially around Maputo are the start of a new corridor to Durban, they will have significant dynamic effects by connecting southern Mozambique and Maputo even more closely to South Africa and not to the central and northern provinces. This will not help the rural–urban exchange in Mozambique; on the contrary, it will increase land rents and opportunities for tourism and real estate development in southern Mozambique. That will attract foreign investment that the elite can joint venture with and create jobs in construction and subsequently some few white-collar jobs in the industries themselves.

In our assessment, the integration of southern Mozambique with South Africa is connected with some of the most fundamental issues and challenges Mozambique faces. Northern products are more expensive because of transport costs. However, north–south infrastructure and regional integration has not received the necessary priority in public investment plans. It would appear that this is linked to both the distribution of political power and the donor focus on investment projects in the south.

*DF4: distribution of political power and weak political opposition (dominance of Frelimo, competition within Frelimo, and lack of voice)*

Leadership matters in nation-building and development. The liberation struggle, as well as the first decade as a sovereign state, promoted and shaped hardy leaders in Mozambique, with lots of resolve, who initially enjoyed very high levels of legitimacy and popular support. However, while the overall objectives and principles driving Mozambique's first leaders were both noble and humane, the circumstances also provided for a ruling party which gradually became more paternalistic, centralist, rather relentless, and hard-handed. Violence was always present and considered a way to solve controversies. There are strong indications that well-known political opposition leaders have been killed since 1975, and Frelimo has in effect remained in power with no real contestation or opposition from domestic political movements (Ncomo 2003: 17–18).

Moreover, what had begun as a revolutionary political party to unite and promote peasants and workers began to change during the implementation of the SAP. The sense of unity started to

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[19] The key point here is that the urban population is not buying and eating what the farmers produce. Moreover, the wheat import and milling industry allows for rent-seeking because it is a profitable business depending on licences and administered prices.

diminish, and when Mozambique was finally able to embark on peaceful economic development in 1992, some 30 years after most of its African peers, it was the poorest country in the world measured by per capita income. The country's infrastructure was devastated and its leadership disillusioned but still very convinced of its entitlement to rule. The notion of entitlement came from the fact that it had led the struggle for independence from colonial rule and made Mozambique a sovereign country. Meanwhile, the farmers who were returning to their land from refugee camps and garrison towns after the war experienced bumper crops and significant improvement in living conditions compared with war. It was therefore relatively easy for Frelimo to round up the majority of the rural vote by promising education, health, and seeds that donors were prepared to pay for and by portraying the opposition party as foreign collaborators that had destroyed the country.

In sum, Frelimo departed from the need to engage in a fair nation-building contract with the peasantry that represents the majority of the population. It did not need the farmers' produce for consumption, and it could safely count on enough rural votes to win elections—if not as cast then as counted. Consequently, the importance of agriculture for inclusive development went out of sight. Meanwhile, the opposition party, Renamo, has remained weak and unable to establish itself as a credible alternative.

While the merging of the political and economic powers has clearly undermined market competition, competition among different groups within Frelimo remains, as reflected in the challenging transition from President Guebuza to President Nyusi, who was not Guebuza's preferred candidate. This competition in the party obstructs market competition in the economy, as the issues are settled between the businesspeople members in relation to their political strength. The competition is not economic in the sense that the more efficient or economically competitive company will win the market. Elite rivalry in Frelimo is not enough to create meaningful change. Only a few groups benefit from the connection between political and business interests. It generally distorts incentives and creates barriers to companies.

Who rises to power internally in the party depends to a large extent on financial strength. Coming to power in the Frelimo party brings with it, as noted by Cortês (2018),

> opportunities for the reconfiguration of the main beneficiaries in the process of capital accumulation. This fact aggravates the disputes and tensions between the political elites of the Frelimo party because state control allows privileged access to capital accumulation opportunities, but to control the state, one must first have control of the party, since it is the Party controlling the state.

The central committee of Frelimo consists of 180 full members and 18 candidate members. Moreover, all provincial first secretaries sit on the committee *ex officio* together with the general secretaries of the Mozambican Women's Organization (OMM), the Mozambican Youth Organization (OJM), and the Association of Veterans of the National Liberation Struggle (ACLLN), which selects its politburo of just ten people and, every five years, its president. The president of Frelimo almost automatically becomes president of the republic. In addition, the party's candidates for parliament are appointed based on blocked party lists. Political competition within the party happens at different levels. As further explained in Cortês (2018), there is dispute not only among different party patrons but also within their own networks of clients, which compete for visibility or to be a part of the networks that are currently dominant.

Thus, it is internally within the party, at the primaries, that business owners can enter alliances and hedge their bets to reduce future risks for their business. Vote-buying in the primary elections is common. Therefore, elite grabbing is no longer just an opportunity for the elite in the party (because it is protected and has privileged access) but is in fact almost necessary for those who want to stay in central party organs and compete for high offices in government. They must raise funds to finance the party and to capture votes at the primaries. Such governance is only possible if corruption goes largely unpunished, which has—at least until recently—been the case in Mozambique. The basic requirement here is that the elite is untouchable by the courts and the electorate. In other words, certain fundamental institutions of effective governance must be weak.

The context of manipulation of elections alluded to in the previous subsection leads to lack of transparency and a situation in which Frelimo is not accountable to the people. The internal weakness of the main opposition party, Renamo, with its strong and centralized leadership, alienating much of the younger talent in the party, has made things easier for Frelimo. The evident lack of voice in society and the externally driven rather than 'home-grown' nature of NGOs reinforce this.

Mozambique's legal system recognizes in principle the right of citizens to participate in the political, economic, and social development issues of the country. Yet a widespread lack of knowledge of who can engage in what processes and how leads to ordinary people not having much voice in decision-making in practice. Weak accountability, at both national and local levels, for ensuring opportunities for ordinary people to have a voice is therefore a critical weakness. Moreover, while formally the principles of freedom of the press are assured, several observers argue that press freedom is under pressure (Human Rights Watch 2019).

*DF5: armed conflicts and political violence*

Throughout Mozambique's history, armed conflict and political violence have been regular and widespread phenomena, and they continue to this day. Armed conflicts have been one of the recurring factors that prevented the country from building up the right institutions. After only a few years of independence from colonial rule, the armed insurgencies began to provoke disruptions in a very direct way. Lives were lost, as well as economic and social services, as infrastructure was sabotaged by Mozambique's National Resistance Movement and Rhodesian armed forces operating almost at will in Mozambique. At various occasions, entire sector strategies had to be abandoned and reformulated as the economic assets and infrastructure in the sector were no longer there or were reduced to ruins, with long-term consequences.

This happened mainly because Mozambique was caught up in the Cold War during the second scramble for Africa. However, in Mozambique, the Cold War was hot: a real and brutal armed conflict driven by an insurgency trained and supported by two of Mozambique's neighbours, commanding what were probably the most powerful armies and security forces in Sub-Saharan Africa at the time. Armed conflict has continued to erupt on different occasions to the present due to the continued polarization between Renamo and Frelimo. This is illustrated with the violence associated with the 2019 elections.

*DF6: critical dependence on external finance (role of donors)*

Mozambique has always been fundamentally dependent on outside forces and agents. We have already alluded to the colonial legacy and the relations with South Africa. The circumstances under which Mozambique was born also created a regime that was extraordinarily dependent on external assistance in terms of finance and technical know-how. Moreover, the country's vulnerability to natural calamities has motivated food aid and large amounts of humanitarian aid.

Mozambique's stand in the struggles against apartheid made it a favoured nation among many Western European governments and NGOs. It also made it heavily dependent on external finance from Western donors. This dependency has continued to the present, though donor dependence measured as aid as a share of GDP has gone down. Importantly, donor dependence entails instability, as donors' objectives and modus operandi change over time and provoke different conditionality for aid finance. Most donor agencies are fronted by diplomats, who know that aid effectiveness ranges below security and commerce in the foreign policy hierarchy. Even on their own terms, aid agencies can be rather paternalistic and compete for influence over policy formulation.

The agriculture sector provides an example of the influence of donors. Agriculture is decisive for Mozambique's growth, and donors have competed for influence in policy development. Numerous new subsector strategies were developed, and policies changed over time and according to which donor formation was the most influential. Foreign assistance helped to build technical capacity in government institutions to research and regulate agriculture, but much of this consisted of white-collar jobs in government institutions that made their presence count for farmers in only a limited way.[20]

This dependence on external finance has led to lack of agency (as described in the previous subsection), which is in turn reflected in the lack of ability to implement strategies and plans and in weak state capacity, in terms of co-ordination of state function. The SAP was the most brutal example of this, but even after the introduction of the Poverty Alleviation Strategies and Paris Agenda of the early 2000s, stressing the importance of host-country ownership of policy, aid delivery fragmented policy formulation in Mozambique. As Sector-Wide Approaches became the preferred instrument among donors, the deep implanting of donor-funded consultancies to assist in policy development became an implicit condition for aid from donor groups interacting directly with line ministries, circumnavigating the government's co-ordination ministries, i.e. Foreign Affairs, Finance, and Planning. This weakened national policy co-ordination and ownership to the point where it contributed to the breaking down of mutual trust between the government and the donor community that followed from late 2000.

Recently, aid to Mozambique has been increasingly instrumentalized by donor countries for their own security and commercial interests, a trend that will intensify as Mozambique's largest donors will be foreign governments that also represent its largest private investors. China and the USA are the most prominent examples of donor countries that have important commercial interests in Mozambique, but one could also mention France, Italy, India, and Brazil—countries with large companies involved in resource extraction and sales of arms and drugs to Mozambique that are not necessarily pursuing goals of poverty reduction.

*DF7: contemporaneous: dominance of the natural resources sector and role of foreign companies and FDI*

While for many countries in Africa the discovery of natural resources is in theory a great opportunity, it is not without risks. An extensive literature links natural resource dependence to poor economic performance. One cause is that resource-abundant economies tend to have highly concentrated economic and export structures and find it difficult to break out of this dependence. Mozambique fits in this category. It also responded to expectations of forthcoming resource

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[20] One of the most disastrous pieces of advice from donors was to privatize the country's well-functioning and solid seed institute. Foreign investors bought it, and soon after, it closed, leaving many farmers to use open pollinated varieties of low yield.

revenues by increasing public expenditure and accumulating debt (including the hidden debt) well ahead of the income coming on stream.

This means that Mozambique is also about to experience a shift from development aid to FDI in the extractives sector as the prime mover of growth. This shift presents risks, and so far the large inflows of FDI into the extractive industries have also not created many linkages to the rest of the economy. First, the domestic role of large foreign savings is very limited and can be damaging for the local economy, through Dutch disease effects and the risk of neglecting agriculture. Moreover, it may replace one kind of (donor) dependency with another, potentially more risky dependency on the export of a few commodities and a handful of large foreign companies. Natural resources or primary commodities rarely provide exporters with a stable long-run engine of development, and they may make Mozambique very vulnerable to external shocks, from both market and political risks, and create little employment.

However, this shift also presents an opportunity; natural resources will bring revenues that can be used to pursue inclusive development, as evidenced by cases of success in natural resource management (e.g. Chile, Malaysia, or Indonesia). The fork in the road is between pursuing this trajectory and continuing on the current path along an Angola-style scenario. It is vital that the natural resource boom does not deepen and aggravate the existing lack of linkages between the urban and rural sectors in Mozambique. At present, foreign savings are not benefitting the rural economy and livelihoods but are largely used for large-scale investment or siphoned off in imported consumption by the elite and middle class overwhelmingly living in southern Mozambique.

We proceed in what follows with proposals for reform.

# 4 Proposals for reform

## 4.1 Reflections on the present

There is no single set of institutional fixes that can guarantee that Mozambique will avoid an Angola-type development scenario. The fundamental issue, then, is what kinds of institutional innovations might go some way to building a social contract for national development and curbing the worst excesses of rent-seeking and corruption.

In this regard, it is fundamental to recognize that political power and authority in Mozambique continue to be almost exclusively vested in Frelimo. This is a deep factor in our diagnostic. Leadership matters in nation-building and development. President Nyusi is in his second term, and potential successors will soon begin to strategize on how to become Frelimo's next leader and candidate for president. It takes visionary and brave leaders with strong economic backing to take on the necessary reforms to put Mozambique back on a favourable institutional and socioeconomic trend. There are definitely people meeting such criteria in Frelimo.

Frelimo, and indeed Mozambique, may miss a unique opportunity to take agency and set a forward-looking agenda for Mozambique, pursuing policies of its own choice for inclusive and sustained growth. Yet, the uniting capabilities that the party at least once possessed are exactly what is needed at this point to prevent the balkanization of Mozambique, both geographically and economically. Currently, there is no Cold War, no donor-prompted policy choices to implement or mimic, and Mozambique's natural resources can help to finance high and inclusive rural and spatially balanced growth if governed properly. While one may argue that these changes are not necessary for Frelimo's hold on power and that there is likely to be political resistance, the implications of increasing inequality, fragmentation, and conflict, which are already visible, serve as a strong warning sign and incentive to act in the national interest.

To illustrate, the events in Cabo Delgado are a wake-up call. The ongoing conflicts and military insurgency show where exclusion and extractive policies lead, even when it is possible to control almost all of the secular political opposition. Transnational networks promoting radicalism exist, and the social conditions in areas they reach will determine whether armed conflict ensues and possibly escalates in different forms to other parts of the country. Another case that points to the need for political leaders to engage with the rural population in central and northern parts of the country is Zambézia province. Its young population of more than five million people, almost all rural, will be difficult to control if they feel excluded from the development process. Existing poverty, inequality, and lack of inclusion will generate frustration, which must be addressed rather than suppressed.

The need for indispensable national resolve has become increasingly clear over the past decade when donors have finally proved unable to make conditionality work for poverty alleviation. Lately, donors have reduced their influence because aid is declining in size and importance in the government's finances. At the same time, Mozambique will, in the coming years, have to manage foreign governments with their own security and commercial interests, which are different from the traditional donor focus on poverty reduction, democracy, and human rights. Moreover, Mozambique must draw on international experiences in shaping the role of foreign companies and FDI in such a way that it benefits the national economy.

*Covid-19*

The first case of Covid-19 in Mozambique was reported on 22 March 2020 (IMF 2020); according to the information reported by the government, the total number of positive cases as of 16 July was 1,383, including 380 patients who had recovered and nine deaths (Government of Mozambique 2020). Before declaring a state of emergency on 30 March, the government took several preventive measures, including the closure of schools (from pre-school to university) and banning gatherings of more than 50 people (IMF 2020). When President Nyusi declared the state of emergency, it applied initially to the month of April. Since then he has extended it three times (at the time of writing). An additional set of measures tightened the restrictions on the movement of people and goods, as well as banning gatherings and imposing reductions in activity or closure of non-essential shops, to name a few examples (IMF 2020).

Additional fiscal as well as monetary and macro-financial measures were adopted (IMF 2020). For instance, the budget allocation for health was increased and the VAT exemption on certain essential goods, such as soap and sugar, was extended until the end of the year. Different measures were taken by the central bank to support financial markets and encourage cautious loan restructuring, as well as facilitating payment system transactions and liquidity conditions.

Although it is difficult to predict the economic impact of the pandemic in Mozambique, one can anticipate some of the potential challenges. As described in the first section of the chapter, although there has been improvement in living conditions in the country, the levels of access to basic services are still relatively low, especially in rural areas, and access to, and the capacity of, health care also remain limited (Jimenez and Daniel 2020). The measures adopted will likely lead to a slowdown in economic activity (Jimenez and Daniel 2020), which will also be affected by events in the international markets, for example via a decline in the demand for exports of goods and services (United Nations in Mozambique 2020). Finally, it is important to consider the vulnerability of the people, as a significant part of the population work in the informal sector and/or depend on agriculture for their livelihood.

A critical point of uncertainty at this point is how long it will take to overcome the pandemic. However, it will undoubtedly take time for the global economy to recover and readjust. Accordingly, Mozambique will face the challenge of handling this severe shock, minimizing the social and economic costs, and achieving quick economic recovery. The constraints caused by the institutional weaknesses highlighted in this synthesis may be even more severe in the light of the Covid-19 situation described. Thus, it is important to note that the recommendations in what follows were formulated with regard to a pre-Covid scenario. We remain convinced that their relevance is even greater than before and that the way in which the present institutional challenges are dealt with might affect the capacity of the state to overcome the present crisis and to continue on the path to achieving sustainable and inclusive development.

## 4.2 Policy recommendations

We proceed in this subsection to propose a set of actions aimed at addressing existing institutional constraints. We draw on the accumulated insights from our diagnostic. The goal is to suggest ideas to stimulate informed national reflection and debate.

*Growth strategy*

We concluded in Chapter 2 that there has been no single engine of growth and that the Mozambican economy remains fragmented and highly dependent on external resources. This vicious circle must be broken. Political leadership at the highest levels is key in this regard. To develop a unifying vision should be a core activity of, for example, the Ministry of Economy and Finance. A planning commission could be established and tasked with the duty of developing such a vision, including identifying strategic public investments required to diversify the economy (including agriculture) and address spatial inequities. Close interaction with the relevant committees of parliament would help to ensure national buy-in, and annual monitoring reports should be presented to the highest levels of government and to parliament.

Core elements of such a strategy would focus on agriculture and agro-industry, industrial policy and private sector dynamics, and natural resources. Moreover, fiscal rules must be established to sustain public investment and guarantee spatial equity in public sector spending. There is a strong argument for creating a Ministry of Infrastructure Development, taking away this task from separate ministries such as Health, Education, Transport and Communications, Agriculture, Public Works, Mineral Resources and Energy, etc. This would help to bring the more coherent and unified approach to infrastructure development that will have to be at the core of any meaningful growth strategy. It could also help to create the conditions for the success of the agriculture and agro-industry recommendations below, and make it easier to avoid donor-driven projects that disregard national priorities and correct historical imbalances.

*Agriculture and agro-industry*

Within the context of a unified vision of development, agriculture and agro-industry would be at the core. This would include a strengthened set of institutions for the delivery of agriculture services, support for the development of technologies for agricultural processing, and the dissemination of more efficient production, storage, and distribution technologies. Moreover, it would require a competent national and regional apparatus for project identification and appraisal, which would focus on the wider synergies from agriculture for the national economy, including a non-farm economy, local manufacturing, etc. In a longer-term perspective and given the risks of climate change for agricultural production, it is imperative to develop clear adaptation strategies and technologies that are environmentally friendly and resilient to climate shocks.

Public resources should not be allocated based on a mechanical fixed-rates criterion. Debates about budget shares to be allocated to different sectors are often reduced to references to various international declarations, such as the 2003 Maputo Declaration and the 2014 Malabo Declaration. According to these declarations, 10 per cent of the total state budget should be allocated to agriculture.[21] However, the allocation of the budget should be based on explicit socioeconomic criteria and analysis demonstrating ability to reach targeted outcomes and should have an impact in the real economy in line with established policy goals. Moreover, it is critical to come to grips with the fact that expenditure in education, health, energy, roads, bridges, transportation, communications, rural commercialization, and many other sectors all interact with and impact on agriculture.

*Access to credit*

Turning to the financial sector and its role in supporting inclusive economic activity, policies should be put in place for it to play a more active role in promoting domestic savings and investments. Developing financing and insurance organizations dedicated to supplying services for smallholder producers would increase the access to resources and reduce risk. Policy recommendations include a concrete suggestion to create a lower-risk agricultural bank. Such a bank could also promote the use of secure digital platforms. The ongoing programme 'One district, one bank' provides an example of credit provision to smallholder producers to expand crop areas, hire seasonal labour, develop cash crops, purchase improved seeds and fertilizers, and purchase agricultural tools.

Loan guarantee funds are another example of a mechanism that applies lower interest rates than the market interest rates, which could expand through a dedicated National Guarantee Fund. Although controversial, a real game-changer would be if the central bank could be requested to keep mandatory reserves as a proportion of the money lent to MSEs. Finally, attention should be given to changing existing laws in such a way that the state-granted land use right (DUAT) could be used as collateral, making it possible to increase the access of peasant farmers to financial resources in support of much-needed development in the agriculture sector.

*Industrial policy and private sector dynamics*

Industrial policy would have to focus on developing competitive labour-intensive companies that would be upgraded from low to high value-added products (Rasiah 2017). A complementary aspect of this would be to identify non-smokestack industries to compete in the international market. These industries would focus on the transformation of products such as fruits and vegetables (baby corn, green beans, citrus fruits, bananas, and mangos), cereals (maize and related products, sesame), and cut flowers, and promote tourism, electricity from hydropower and natural gas plants, and transportation services (Newfarmer et al. 2018).

*Natural resources*

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[21] It was 5.7 per cent in 2018, according to OMR (2019).

The current passive approach to the extraction of natural resources is a dead end. What is required is a deliberate supply-side policy aimed at using the natural resources industry as an important opportunity to support agriculture and business sector growth. This approach should also consider the establishment of a public company based on best international experiences to exploit and extract hydrocarbons on a large scale, or grant a concession to Empresa Nacional de Hidrocarbonetos (ENH).[22] A competitive and transparent policy in line with best international practices should be developed to hire managers, engineers, and other professionals. The public company would have to be managed with autonomy and independently from direct political interference. It should be supervised by an administrative board, which in turn operates under a transparent management system. The operation of such a company would not exclude the participation of other international competing companies in Mozambique in exploring and producing hydrocarbons.

When Mozambique starts to export natural gas from the Rovuma Basin and the inflow of foreign revenues increases substantially, macroeconomic policies must focus on developing the absorptive capacity of the country and curtail the distortions imposed on the domestic economy by an appreciating real exchange rate (Henstridge and Roe 2018). Mozambique may also want to consider the relevance of establishing a sovereign wealth fund and a stabilization fund to benefit future generations and insulate the economy from short- to medium-term volatility in commodity prices (Otto 2018), though it will take time to build up the fund. It is also recommended to increase linkages between natural gas projects in the Rovuma Basin and local companies, which would bring domestic business opportunities. Finally, internal actors should be mobilized to play an active role in promoting these linkages rather than relying on foreign direct investors alone.

*Social sectors*

We have throughout argued the case for striving for a more equitable Mozambican society. A key aim in this context is to ensure that citizens are healthy enough to produce their own means of survival and wellbeing. Within this framework, it is necessary to:

- legislate the separation between the Ministry of Health (normative and regulatory body) and the National Health Service (implementing agency), with different budgets;
- legislate the articulation between the National Health Service (on the one hand) and the health services of the municipalities and other local authorities (on the other).

These aspects should be contained in a law that sets out the appropriate national health policy for the longer term, to be approved by parliament.

The investment in education that has taken place over the years has supported progress in economic development. However, quality is limited (see Jones 2017). Accordingly, there is a need to promote systematic quality standards in education, both for teachers and for students. Education practices should be separated from political interests. These interests represent an attempt to obtain parents' votes by allowing students to graduate at higher levels without satisfying

[22] ENH is a Mozambican public company holding a 15 per cent interest in the Mozambique liquid natural gas (LNG) project in Area 1 of Rovuma Basin (Total 2019). This company also holds a 10 per cent interest in another LNG project consortium operating in Area 4 of Rovuma Basin (ExxonMobil 2020; Galp 2020). ENH is not a leading company in any of the large natural gas projects in the Rovuma Basin. It has been granted exclusive rights on a concession to explore and produce hydrocarbons in a relatively small project of the Mazenga Onshore Block, which is estimated to have reserves of 223 billion cubic feet of gas (Esau 2019).

minimum required standards. Moreover, within the framework of the agreed national vision of development, education must focus on fields that the Mozambican economy requires—for example, agronomy, fisheries, and tourism, and new areas in science and technology.

Finally, social safety nets must be developed, including expanding social protection. This could be, for example, by leveraging the current roll-out of Covid-19 emergency funds to cover an increasing number of households (similar to a universal basic income). Tax-financed social sectors providing universal access to basic health and education have so far been unrealistic for Mozambique given its present income level. However, if the projections of future income from natural resources materialize, Mozambique will have the financial means to pursue such a policy in the foreseeable future.

*Political participation*

In a multiparty democratic system, political parties should have equal opportunities to access financial resources from the state and from all those who wish to contribute. It is important that the party in power and its members do not use public funds or resources for campaigning purposes, beyond those stipulated by law. This is a fine line to draw and is challenging also for richer and more developed democracies, but in Mozambique there is much room for improvement. Both legislation and legal practices should make sure that political actors do not abuse their office or intimidate enterprises or individuals to finance the party under the threat of not providing licences, imposing fines, or firing individuals from public sector positions. Creating a level playing field is critical.

*Judicial power*

A key reform would be to pursue the effective separation of the executive, judicial, and legislative powers. Focusing on the judicial power, an important first step would be to create an additional post of president of the judiciary. Instead of being appointed by the president of the republic, the president of the judiciary should be elected by all judges. Their votes would have equal weights, such that no one would have special voting powers. The president of the judiciary would not have the jurisdictional function of the courts, and would be in charge for four to five years, not coinciding with the years of the presidential and parliamentary elections, and if possible, also not coinciding with municipal elections. A body for oversight and control would be elected for the same period as the president of the judicial power. This body would be composed of judges as collegial members with the role of approving the budget and managing complaints. Members would represent a percentage of areas or courts, but not judge categories.

Following this recommendation, the president of the Supreme Court would keep the position as '*primus inter pares*' but would not represent the judicial power. The only exception would be if the president of the Supreme Court were democratically elected as president of the Magistrate Superior Council, on an equal footing with any other candidate judge.

*Decentralization*

After lengthy negotiations, the parliament has recently approved the introduction of the election of the provincial government and the creation of a secretary of state for each province. Consequently, in April 2019 the parliament approved three bills on decentralized governance, provincial assembly organization and functioning, and the provincial assembly elections. The stated goal of these initiatives is to further democratize and empower local levels. It is critical that these reforms do not result in the provincial position of state secretary offsetting the political power of provincial governors (elected in local elections), which potentially increases instability in the institutional set-up. The core requirement is that accountability to the people becomes embedded.

*Corruption, lack of transparency, and ineffective auditing*

Lack of transparency has wide-ranging implications for how Mozambican society operates. It opens up possibilities for corruption and misuse of public funds. A first set of reforms would include effective monitoring and enforcement of public probity and conflict of interest legislation, including public registries of the wealth of members of parliament and senior government officials. While lack of transparency is also associated with low state capacity, focused reform should be feasible. Moreover, massively heightened transparency around all forms of government contracts and beneficiaries must be enforced.

*Foreign relations*

As mentioned above, Mozambique must prepare to face not donors in pursuit of poverty alleviation but foreign countries with a much more intertwined agenda of foreign policy concerns—security, commercial, and aid—bundled and labelled in tactical ways to serve each country's interests. Accordingly, Mozambique should expect increasing and significant instrumentalization of aid budgets by donors. The government must be able to access and address the concerns of its partners and indeed balance the conflicting interests of different foreign countries (as different as China and the USA) carefully against Mozambique's long-term goals. This is especially so in making sure that Mozambique preserves sovereignty and national unity and that its government truly holds agency. It entails saying 'no thanks' at times to aid proposed by donors, when such aid is not in line with national policy and plans.

Mozambique would therefore be well advised to revamp the entities (organizations and ways of working) dealing with donors only and to put in place a structural framework and set of institutions suited to dealing with foreign countries. A holistic view of relations with foreign nations is now more relevant than a primary and overwhelming focus on the donor part of that relationship.

Mozambique would benefit from a strengthened Foreign Service, making sure that all aspects of foreign policy are covered in relations with foreign countries. Importantly, it would be indispensable to create clear and transparent rules of the game for all foreign investments (public and private), with reference to a carefully elaborated investment plan with priorities based on clear, objective criteria. To do so, and indeed to monitor such plans and strategies, the government should establish strong interfaces between key co-ordinating ministries and sector ministries, such as the Ministry of Industry and Trade (MIC), Ministry of Energy and Mineral Resources (MEMR) and the Ministry of Agriculture and Rural Development (MADR), chaired by the prime minister.

Finally, we strongly recommend that government align all foreign investments (official development assistance and FDI) with reference to the coherent development strategy and investment plan referred to above. We reiterate that development takes time. Therefore, once adopted, policy recommendations should be given enough time to bear fruit, irrespective of changes of government. We conclude by suggesting that the parliament should approve not only the development plans, but also the timeframe needed for their implementation, review, or change. This would help to ensure stability and coherence, and shelter them from changes motivated by short-term political gains.

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