

MOZAMBIQUE AT A FORK IN THE ROAD: AN INSTITUTIONAL DIAGNOSTIC

Reflections from the Mozambique Institutional Diagnostic (MID)

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Landmøte OM MOSAMBIK

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Outline

- Introduction
 - The project
 - A fork in the road
- Institutional diagnostic: summary table
- Proximate causes and deep factors

Introduction

The project

- The **Economic Development and Institutions (EDI)** programme:
 - Fill in a gap in knowledge: evidence on how positive institutional change can be achieved.
 - EDI Institutional Diagnostic Tool: in-depth case studies of a select group of countries, aimed at exploring the relationship between the characteristics and functioning of a country's institutions and its economic development performance and constraints.
- The **Mozambique Institutional Diagnostic (MID)**
 - Launched in 2019 and implemented under the EDI programme in partnership with the Inclusive Growth in Mozambique (IGM) programme between 2019–21.
 - Goal: produce an institutional diagnostic that allows policy makers to identify institutional weaknesses that constrain economic development in Mozambique and indicate possible directions for reforms and change.
 - A series of studies by leading national and international researchers/policymakers: economic development and institutional performance in perspective; thematic studies (e.g. agriculture, health, donor relations); synthesis.

A fork in the road

- Definite gains achieved over the years, across many **metrics of development**. However, since independence the development history of Mozambique led by the governing party Frelimo also crowded with **unfulfilled hopes, war and calamities, misguided policies, and continued conflict**.
- Limited time to focus and build the **institutions required to support effectiveness and consistency in policies oriented towards inclusive development**.
- And Mozambique is now at a fork in the road, grappling with the many opportunities and risks associated with the **discovery of some of the largest natural gas fields in the world**.

A fork in the road (cont.)

- The option is not whether or not to exploit these resources at this point in the history of modern Mozambique.
- The challenge is between:
 - Continuing on the present fragmented, not sustainable and non-inclusive path, reflecting low-productivity growth in agriculture, lack of diversification and a low level and pace of structural transformation;
 - Using the natural resource revenues effectively for poverty reduction and inclusive development.

Institutional diagnostic: Summary table

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

Proximate causes and deep factors

Proximate causes and deep factors

- Mozambique is a **vast, diverse country**: It lacks **integration** in terms of economic and physical infrastructure as well as a consolidated **sense of unity**.
- **Independence came late** as compared to other African countries and the socioeconomic **starting point** was extremely low.
- The transition to independence was particularly difficult after centuries of **colonial** oppression and neglect.
 - The departure of the educated and trained Portuguese settlers left the country with a **severe lack of skills**.
 - And existing **institutions collapsed**.

Proximate causes and deep factors (cont.)

- There was no sustained opportunity for building institutions between independence and the **war** of the 1980s, which had a devastating effect on the country.
- The **polarization** between Frelimo and the main opposition, Renamo, has continued to the present, and **violence** has escalated once again with recent armed insurgency in Cabo Delgado.
- Frelimo has been the **political ‘powerhouse’** domestically for 45 years, and the political opposition remains weak. One result is the lack of separation of the executive, legislative and judicial powers. Legitimacy of Frelimo now contested.

Proximate causes and deep factors (cont.)

- Extreme dependence on **geopolitical factors**, including Mozambique's neighbourhood with South Africa.
 - Supported Renamo during the war in the 1980s.
 - Important economic relations with South Africa.
 - Benefit the elite and urban middle class in southern Mozambique.
 - Fragmentation of the economy and people between the southern region, on the one hand, and the centre and north on the other.
- **Donor community** has had a heavy influence in the country.
 - The liberalization and privatization inherent in the structural adjustment programme contributed to a merger of political and economic powers. The entrepreneurial class in Mozambique remains incipient and the political opposition lacks business influence.

Proximate causes and deep factors (cont.)

- **Lack of agency** of Mozambique in an international context.
 - Continuous domestic and externally imposed changes (and shocks) have contributed to the instability and lack of implementation of **development strategies and plans**.
- The huge potential from the **natural resources** sector increases opportunities for **rent-seeking** and the risk of **elite capture** in the years to come.
 - Recent events revealing lack of transparency in the natural resources deals and the hidden debt crisis are powerful reminders of the harmful effects of corruption.

A few final remarks

Take Institutions Seriously

- Weak institutional capacity a significant risk
- Technical cooperation and mitigation of risks

Thank you
Obrigado



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