Economic development and institutions

Mozambique at a fork in the road: an institutional diagnostic

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Chapter 1 Introduction and overview

In 1975, the year in which Mozambique became independent from Portuguese colonialism, Nobel Laureate Bob Dylan recorded a song about this welcoming, picturesque, and troubled country in Southern Africa. He sang about magic in a land where the sunny sky is aqua blue. Indeed, Mozambique is unique, also in the field of development economics.

Definite gains were over the years achieved across many metrics of development. However, since independence the development history of Mozambique is as well crowded with unfulfilled hopes, war and calamities, misguided policies, and continued conflict. No single domestic driver of growth and economic transformation got established—in spite of the natural comparative advantage in agriculture and agro-industry—and there was limited time to build the institutions required to support effectiveness and consistency in policies oriented towards inclusive development.

Finally, the country is now, in 2020, at a fork in the road, grappling with the many opportunities and risks associated with having discovered some of the largest natural gas fields in the world. The option is not whether or not to exploit these resources at this point in the history of modern Mozambique. The challenge is whether Mozambique will be able to use the natural resource revenues effectively for poverty reduction and inclusive development instead of 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.

The main historical and economic events since independence in 1975 began with the almost complete dismantling of colonial institutions with the departure of the Portuguese settlers who had ruled the country. In 1977 a stern Marxist-Leninist regime took over, and the conflict between Frelimo and Renamo began. The war intensified in the early 1980s, engineered in large measure by the apartheid regime in South Africa. At an economic low point in 1986, Mozambique made a U-turn in economic policy, accepting an orthodox structural adjustment programme imposed by Bretton Woods institutions and other donors in a war-torn economy. Peace followed in 1992, when South Africa moved away from apartheid, which resulted in a process of rapid growth and high hopes for the future. Yet, the much-needed progress essentially reflected the return of millions of peasant refugees and recovery from an extremely low base. Growth started tapering off in the early 2000s in spite of investments in a few mega-projects, and it became increasingly clear that the development path was not inclusive. In parallel, huge gas reserves were discovered, while institutional indicators across a broad range of measures deteriorated. More recently, the rural sector has continued to stagnate, and a major economic crisis erupted in 2016 due to a combination of corruption (associated with a major hidden debt scandal) and natural calamities, while political violence and military insurgency began escalating once again.

On this background, this volume proposes a reflection on the nature and quality of institutions in Mozambique and their capacity or incapacity to respond to the needs of development, as well as on the deep factors likely to hinder development and, more importantly, institutional reforms. We do this through a general reflection on the economic and political history of Mozambique and through a series of thematic studies. They aim at identifying the way institutional weaknesses are obstacles to sectoral or general development and discuss how to remedy them given the political economy context. This 'institutional diagnostic' of Mozambique is part of a wider set of case studies of low-income countries,[1] whose objective is to elaborate a methodological framework for identifying institutional weaknesses and directions for reform in low-income countries in general, inspired by the Hausmann et al. (2005) growth diagnostic approach.

More specifically, we uncover and trace the determinants of basic institutional weaknesses in Mozambique to a series of proximate causes and deep factors. They include:

- Mozambique is a vast, ethnically diverse country, lacking 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, with a particularly difficult transition 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.
- 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, that has governed Mozambique since independence, and the main opposition, Renamo, 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 a lack of separation of the executive, legislative and judicial powers.
- Mozambique has been critically dependent on geopolitical factors, including its neighbourhood with South Africa, which supported Renamo during the war in the 1980s. This geographic proximity also benefits the elite and urban middle class in southern Mozambique and contributes to the fragmentation of the economy and people between the southern region, on the one hand, and the centre and north on the other.
- The donor community has had a heavy influence in the country. One consequence of the externally imposed market reforms in the late 1980s and the desire to avoid external dominance was that the national elite associated with Frelimo took over state-owned assets leading to a merger of political and economic powers. The entrepreneurial class in Mozambique remains incipient and the political opposition lacks business influence.
- The lack of agency of Mozambique in an international context is a result of the country's dependence on external finance. Continuous domestic and externally imposed changes 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 scandal are powerful reminders of the harmful effects of corruption.

[1] See https://edi.opml.co.uk/research-cat/institutional-diagnostic-tool

Next, from the thematic contributions in this volume, we learn that while the government regularly announces formal pro-poor development strategies and plans, implementation is lacking. This is so in the agriculture sector, in particular, and while the public financial management system was reformed and improved in the 1990s, its performance has weakened more recently. The contributors to this volume also point to different dimensions of low state capacity, for instance, in terms of poor public service delivery, which helps explain the low quality of education and the existing inequality in access to health and financial services. Judicial power remains dependent on the executive and the discovery of natural resources and their management have exposed severe institutional problems with the regulatory environment and ineffective auditing. Failures in the decentralization process and the lack of voice at regional and local level also stand out. Finally, the last thematic chapter provides a detailed account of how the unstable and multifaceted relationship with donors has been at the core of the volatile development path of Mozambique since its independence.

Our synthesis brings these elements together and focuses on the need for reforms. The troubled path has led neither to building strong institutions nor ultimately to sustainable development. However, the fork in the road implies that Mozambique has a unique opportunity to change. To avoid repeating mistakes from the past and elsewhere in Africa and aggravating socioeconomic problems, including inequality and increasing internal conflict, we propose a series of measures that we deem critical for pro-poor structural transformation and broad-based development. We highlight that agriculture and agro-industry must take centre stage. This is central to address existing poverty and is the only way to tackle fragmentation and spatial inequality and ultimately conflict, on the one hand, and macroeconomic challenges including Dutch disease due to natural resource revenues, on the other. Moreover, such an approach is associated with the added bonus that should gas disappoint—with weak revenues once it comes on stream because the global energy transition to renewables moves fast or a glut of gas develops—then a more dynamic agriculture has been built.

This will require developing a unifying vision for a growth strategy centred on agriculture and agro-industry, labour-intensive private sector dynamics and natural resources. Moreover, reforms in the national health system, the promotion of systematic quality standards on education and the expansion of social protection will be essential to help guarantee a more inclusive Mozambican society. This diagnostic points additionally to the need to level the playing field in terms of political competition, namely with respect to party financing, as well as to ensure the separation between the executive, judicial and legislative powers through the creation of a president of the judiciary and by pursuing the process of decentralization effectively. In face of recent events, the costs of corruption and lack of transparency highlight that active monitoring and auditing are necessary. Finally, changes in the relations with donors and the increasing importance of foreign direct investment call for entities that are suited to deal with foreign nations and for alignment of the foreign investments with a truly national, unifying development strategy and investment plan.

References

Hausmann, R., D. Rodrik, and A. Velasco (2005). *Growth Diagnostics.* Cambridge MA: John F. Kennedy School of Government, Harvard University.