Economic development & institutions

Mozambique at a fork in the road: An institutional diagnostic

Chapter 2: Historical, political, and economic background

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1 Introduction

Few countries have experienced as many extreme political and economic changes as Mozambique both before and after independence in 1975. 'The combined legacies of colonialism, idealism, socialism, war fueled by racism, economic collapse and structural adjustment (inspired by stout liberalism) have made a lasting impact on the structure of the economy' (Tarp et al. 2002: 1).

The purpose of this chapter is to provide essential historical and socio-economic background and summarize the key characteristics of the society and economy of modern Mozambique as a first step towards developing an institutional diagnostic. The aim is to offer overall framing and draw attention to the big picture story of Mozambique, including its challenging history, both pre- and post-independence; post-conflict progress in the 1990s; the increasing complexity and gradual institutional weakening to the present;[1] and the small externally dependent economy character and interlinked set of challenges Mozambique is facing.

Focus is on features that we deem particularly important rather than on completeness. A key point that serves as a core theme throughout the diagnostic is that the building of modern, efficient institutions reflects history in intricate ways and is likely to be a long and arduous process that even under the best of circumstances will take a long time to complete. Escaping from past legacies and overcoming current constraints requires decisive action, clear goals, consistency, and patience. While Mozambique has seen much action over the years, goals and strategies have shifted dramatically, and the building of the institutions needed for development has received limited attention.

We begin Section 2 with a historical overview to capture key events that have shaped Mozambique over the centuries, and finish with a summary of recent events. Next, in Section 3, we turn to a description and interpretation of socio-economic indicators and trends. Section 4 concludes.

[1] We refer the reader to Chapter 3 for details about the weakening of institutions between 2005 and 2019/20 based on available international comparative data.

2 History

2.1 Geography and ethnic diversity

Mozambique, with a population of around 30 million, covers a total land area of more than 799,380 km^2 (FAO 2016). It is located on the East Coast of Southern Africa, and borders six other countries: Tanzania in the north, Malawi, Zimbabwe, Zambia, and Swaziland to the west, and South Africa to the south (see Figure 1).

Mozambique's total border length is around 4,445 km and its approximately 2,515 km of generally sandy coastline to the east faces the Indian Ocean and includes a number of islands (FAO 2016). Some 25 main rivers flowing east towards the Indian Ocean cross Mozambique. The largest and historically most important river is the Zambezi, whose 820 km Mozambican section is navigable for 460 km. The road infrastructure illustrates the lack of integration in the north–south dimension (see Figure 2), a characteristic to which we return in what follows.

Figure 1: Mozambique in Southern Africa

Source: authors' construction based on Natural Earth Data (available at: https://www.naturalearthdata.com/about/terms-of-use/).

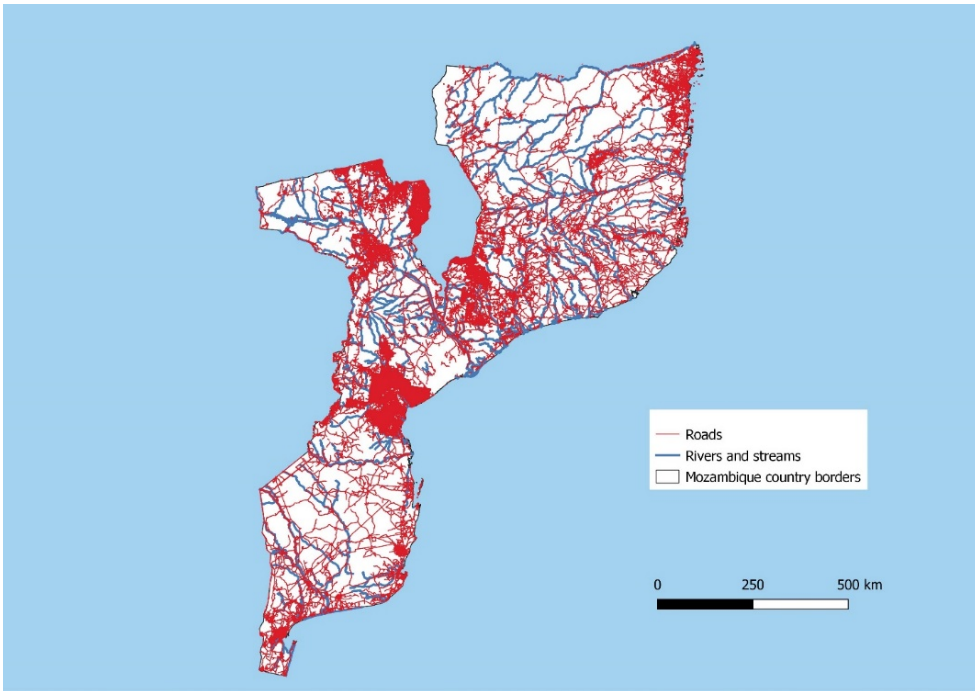
The country is made up of 11 provinces, and the major urban centres are generally situated along the coast, the most important being Maputo, the capital, in the far south. Other cities include Beira, in the middle of the country, Quelimane, north of Beira, Nampula, yet further north, and Cabo Delgado in the north-east corner (see Figure 3).

Before the arrival of Vasco da Gama in 1498, Bantu tribes had occupied the territory of modern Mozambique since the first centuries CE. The Arabs started influencing from approximately 1100 CE and, while the effects of the encounter between Bantu tribes and Arab traders differed between the tribes, the resulting ethnic diversity and Arab influence remain present to this day. Many of the conflicts and contradictions between the different parts of Mozambique that exist today also have deep historical roots—a point to which we will return in what follows.

The major ethnic groups (and sub-groups)[2] in Mozambique, some of which are linked to ethnic groups in neighbouring countries, are: Yao, Nyanja, Makonde, Mwani, and Makua-Lomwe in the north and centre; Nsenga, Pimbwe, Chuwabo, Nyungwe, Maravi, Sena, and Shona-Ndau in the centre; Chopi, Bitonga, Tswa, Shangana, and Ronga in the south. To these must be added Portuguese descendants and a 'mestiço' minority of African/Portuguese descent. Finally, there is a community of Indian Asian origin from Pakistan, India, and various Arab countries.

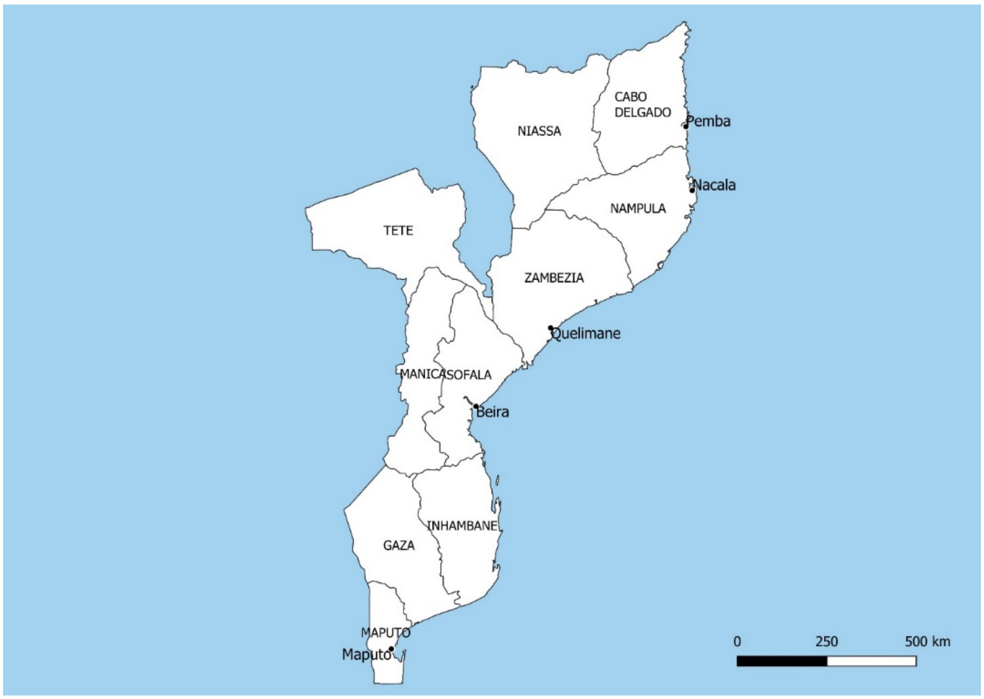
[2] http://culturamocambicana.blogspot.com/2017/07/principais-grupos-etnicos-de-mocambique.html

Figure 2: Road infrastructure and rivers



Source: authors' construction using © OpenStreetMap contributors (available at: https://www.openstreetmap.org/, https://www.opendatacommons.org/) for roads and the Regional Centre for Mapping of Resources for Development (RCMRD) (available at: https://opendata.rcmrd.org/) for waterways.

Figure 3: Administrative map of Mozambique



Source: authors' construction based on Natural Earth Data (available at https://www.naturalearthdata.com/about/terms-of-use/).

Importantly, these geographic characteristics imply that economic transaction costs are exceedingly large, and regional and ethnic divides have resulted in both economic fragmentation and differences in access to political power (for details see Grobbelaar and Lala 2003). In broad terms, economic as well as political power concentrated in the south even before independence, and did so because of the South African economy. The capital was moved from Ilha de Moçambique to Lourenço Marques (renamed Maputo after independence) in the early 1900s, following the discovery of gold in South Africa. The significance of the move of the capital to the extreme south of a very large country because of the important economic links with a much larger neighbouring economy cannot be over-emphasized.

2.2 Colonial legacy

Historically, Mozambique was particularly attractive for the trade of gold, ivory, and slaves, as well as other metals and hides, and, even though their occupation was limited at first, the Portuguese gradually established commercial influence from 1505, adopting protectionist measures as well as clientelist and corrupt practices. The Portuguese importance grew in the following centuries as the colonial system was progressively developed,[3] and it intensified in the mid-1880s, backed by investments by foreign capital and companies, especially British, Rhodesian, and South African.

The Portuguese colonial presence and the control of private—often foreign, Anglophone—companies over Mozambique's basic infrastructure had tremendous consequences. Portuguese settlers effectively colonized Mozambique, and its administrative and bureaucratic institutions, as well as the army, depended on instructions from Lisbon. Existing infrastructure ran east–west and the country remained not only ethnically but also economically disintegrated in the north–south dimension. Moreover, there was a weak and biased colonial education system, resulting in virtually no training of indigenous people or recruitment of African-Portuguese, though with some prominent exceptions.

Until around the mid-1950s, Mozambique was largely limited to supplying cheap raw materials to Portugal and cheap labour and transport services to neighbouring countries. The traditional rural sector received no government support and remained underdeveloped. Additionally, a series of legal measures aggravated the economic and social differences that divided the population. In the 1960s, there was increasing migration of settlers to Mozambique, expanding the economy and the internal market. By 1964, industrial production for the internal market exceeded production for export (Leite 1989). But despite the fact that the economy had started to become less orientated towards continental Portugal, the struggle for independence began in that same year.

Serious challenges mounted (see Section 2.3) and outright chaos broke out at the time of independence in 1975, when a majority of the Portuguese population left the country. Within weeks, administrative structures had collapsed and become empty shells,[4] and the Mozambique Liberation Front (FRELIMO), which, although a well organized liberation movement, had no experience of running a country, took over.[5] Its focus was on dismantling colonial institutions.

[3] Full colonial military control and occupation of Mozambique occurred after 1895 with the fall of the Gaza Kingdom (Sousa 2018).

[4] Unlike other European colonies, where natives were already involved in administration, and sometimes politics, before independence.

[5] FRELIMO was originally a united front of three political parties engaged in the liberation struggle, which put ideological differences aside, at least for a while in pursuit of the common objective of sovereignty, though internal disagreement was common. For example, several leading figures disappeared or died under disputed circumstances. Dissidents came to play a key role in the establishment of the Mozambican National Resistance (MNR), as discussed below.

2.3 Independence, geopolitics, and war

The decade before independence was marked by military struggle. Although FRELIMO had been formed in 1962 as a constitutionalist and non-violent movement, it launched a military offensive in 1964 and continued to do so into the 1970s, initially taking control of parts of the north and progressively advancing towards the centre of the country. Largely due to the overthrow of the Portuguese government in April 1974, official talks about Mozambican independence started, and they led in September of the same year to the signing of the Lusaka Agreement, which established a transition government with a majority of FRELIMO members. Formal independence and the foundation of The People's Republic of Mozambique as a one-party socialist state happened on 25 June 1975 under the leadership of Frelimo[6] and President Samora Machel (see Table A1 in the Appendix for a timeline of the main events since independence).

As was the case in Viet Nam in the mid-1970s after its defeat of US forces, the atmosphere in Mozambique was 'upbeat' among the Frelimo 'comrades'. Having 'defeated' the Portuguese colonial power, Frelimo ambitiously declared, in jubilant tones, that the coming decade would see victory over under-development. While it was over-optimistic and, in retrospect, naïve to compare victories achieved on the battlefield with challenges faced in the development field, it is pertinent to recall that the course of action taken appeared at the time self-evident to many, including the leadership in both Viet Nam and Mozambique, being both poor, exploited, and destroyed economies.[7]

During the immediate post-independence period, national reconstruction and consolidation were in focus. However, a series of factors undermined these efforts, as discussed in several chapters of this volume (see, for example, Chapter 9). The first was the serious economic challenges that marked this period. As alluded to above, approximately 80 per cent of the Portuguese population had left the country. This created extreme labour shortages in public administration and the secondary and tertiary sectors, as well as having a devastating effect on agriculture, which depended on settlers for input supplies and the marketing of output, including extensive credit provision, often in kind. Consequently, living and educational/managerial standards were dismal to begin with in the newly independent country.

Second, after its transformation into a Marxist-Leninist party in 1977, Frelimo initiated a 10-year plan (1981–90) with the goal of overcoming under-development. Socialist policies were indeed the norm at the time in newly independent African countries and a logical reaction to the past. However, the strategy, conceived in orthodox central planning terms, was out of touch with the reality on the ground. Import substitution, forced mechanization of agriculture, and resettlement of large numbers of people were at the core of the strategy. Accordingly, misconceived policies were forcibly introduced and influential members of the Frelimo leadership were hostile to the

[6] When referring to the Liberation Front pre-independence, this is spelled FRELIMO, while the post-independence party is referred to as Frelimo.

[7] Portuguese colonization differed from the French and British in at least three distinct ways. The first was the timing and number of colonial settlers (including migrants from Europe), which were earlier and much higher in Portuguese colonies. In Mozambique more than half a million Portuguese settled and occupied all walks of life, including smallholder farming, lower management positions, and operatives in industry and transport, in an economic structure that was closer to those of South Africa and Rhodesia. Second, and as a result of this, no import of such a labour force occurred, as it did in French colonies, where Lebanese and North African and British (Indian) labour was imported and stayed when colonizers left at independence. Third, Portugal made little or no attempt to educate the indigenous population and passed laws of assimilation that were not far from apartheid. In relation to institutional strengths and weaknesses, all this meant that the Portuguese colonies started from a lower point in 1974 than most other African countries did in the early sixties (with noticeable exceptions, like Sudan).

private sector due to their Marxist ideology. This bias had long-lasting effects, and rather than winning support among the peasantry, Frelimo was losing it.[8] There was room for voice and participation, but only inside the party structures. At the same time, Frelimo developed authoritarian and coercive methods, in large measure in response to the context of a brutal war instigated by outsiders.

Third, independence came suddenly as well as late to Mozambique as compared with other African countries, and regional (Rhodesia and South Africa) and global (Cold War) conflicts left the new country with very little room for manoeuvre, either politically or economically. This turned out to be very costly indeed, illustrated by the heavy economic and military impact of Mozambique's decision to enforce United Nations sanctions against Rhodesia in 1976 (UN 1976).

Mozambique's independence posed threats to Rhodesia and South Africa, which feared a communist onslaught. They therefore supported and financed Renamo (the Mozambican National Resistance, originally designated MNR), which opposed Frelimo's socialist orientation.[9] Renamo gathered Frelimo dissidents under the leadership of André Matsangaíssa (1977–79) and Afonso Dhlakama (1979–2018). The Renamo leadership came from the centre of Mozambique, but the movement was also constituted by members from elsewhere in the country. Frelimo has over the years pursued a policy of having representatives from all relevant ethnic groups in high positions in the party and in the government, yet prominent representatives from the centre and the north have felt ostracized.

After the independence of Zimbabwe (former Rhodesia) in 1980, the apartheid regime continued skilfully to exploit both historical and current ethnic contradictions and grievances and turned Renamo into a significant military force capable of disrupting and sabotaging large parts of the country. The Mozambican government responded by increasing repression and by targeting the supply lines of Renamo with a stronger and more sophisticated military presence and firepower. This strategy failed and the war escalated, in the midst of the regional and global Cold War. With the signing of the Nkomati Accord of non-aggression between Mozambique and South Africa in 1984, President Samora Machel hoped for some reprieve, but large-scale sabotage and destruction of infrastructure and killings continued, with support from South Africa.[10] Backed by the military might of South Africa, Renamo's ruthless warfare slowly but surely undermined Frelimo's nation-building efforts. A stubborn but ineffective strategy by Frelimo to criminalize insurgents and

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[8] At the Fourth Congress in 1984, Frelimo recognized the neglect of small peasant farmers, but by then the country was once again at war.

[9] MNR was originally formed by FRELIMO dissidents aided (organized and trained) by a group of Portuguese businessmen, elements of the former Portuguese Secret Police (PIDE), and, not least, Rhodesia. MNR's first leader was succeeded by Afonso Dhlakama in 1980. Renamo members opposed the political and military dominance of Frelimo after 1975 and adopted a right-wing stance, in opposition to the Marxist-Leninist stance adopted by Frelimo in the first years of independence. This was the political justification for their military opposition, and for obtaining support from the minority governments of Rhodesia and South Africa and from the US and West German governments, as well as from former Portuguese settlers.

[10] As already alluded to, the Rhodesian Central Intelligence Organization (CIO) funded and organized MNR under the leadership of Matsangaíssa from 1977 to 1980, when Zimbabwe became independent. The South African government took over the CIO's role in 1980. After 1984 and the Nkomati Accord, South African government support for Renamo became clandestine. Other international supporters of Renamo were the Frontline Fellowship, a missionary group in South Africa, some former Portuguese settlers, the US government, and some West German politicians. Although relations between the US government and the Frelimo government improved from 1983, North American conservatives increased their support for Renamo in 1985.

Renamo supporters, not recognizing the need for political settlements, added to the complexity of the situation.

Fourth, another consequence of the late timing of Mozambique's independence was that the country had no more than a five-year 'settling-in' period before laissez-faire ideological winds of change swept across the world around 1980, including the election of President Ronald Reagan in the US and Margaret Thatcher as Prime Minister in the UK. These changes influenced the policy stance of international financial institutions, including in particular the IMF and the World Bank, and this turned out to be critical in the mid-1980s in Mozambique (see Tarp 1993).

2.4 The Bretton Woods institutions and a U-turn in economic strategy

The fragility of former alliances in Eastern Europe and elsewhere in the global arena (including those between the USSR, East Germany, Cuba, and China), the ongoing war, and an economic state of affairs that reached a historical low-point in 1986 forced Frelimo to change course. Mozambique had no viable option but to turn increasingly to Western donors (in addition to the Nordics, which were present from very early on) for external finance, and the donors came to play a decisive role, imposing free-market policy conditionality on a war-torn economy. The Nkomati agreement signalled the beginning of negotiations for support from the Bretton Woods institutions and the Paris Club creditors,[11] though these initiatives only materialized after Samora Machel's death in a plane crash in South Africa in 1986. The government launched the five-year Economic Rehabilitation Programme (PRE) in 1987 and in effect turned the economic strategy pursued so far on its head.[12] The implications were wide-ranging.

First, the structural adjustment programme (reflecting a standard package of orthodox policy reforms that took no account of local circumstances) was ill conceived for a country at war, as had been the 10-year development plan, and the short-, medium-, and longer-term economic effects were dire. No supply response from agriculture was possible due to the overwhelming effects of the war; and subsidized industries in the cities had to lay off workers, adjust wages, and eventually expect privatization or closure.

Second, a key element of the PRE was the privatization of state-owned enterprises. Diogo (2013: 18) notes: 'To make the transition from a centrally planned economy to a market economy, Mozambique privatized more than 4,000 companies, about 80 pct. of them benefitting Mozambicans and on highly advantageous conditions.' Moreover, in the longer-term, the PRE introduced a deep-seated structural and highly problematic economic imbalance between Frelimo and Renamo as privatization went ahead while Renamo guerrillas were still in the bush.

The drive to avoid foreign takeovers ran as a red thread through the process, instituted through a national ownership requirement. There was, however, no indigenous entrepreneurial class, given the weakness in the domestic politico-judicial system and the private sector.[13] So assets and power

[11] Negotiations also included massive amounts of food aid from the US and other donors, which was much needed due to both the war and a series of natural calamities.

[12] For further background and discussion see Addison (2003), including chapters 4 and 9 addressing rural livelihoods and social capital and the agrarian question in Mozambique's transition and reconstruction.

[13] Outside family farming, there was practically no private sector in Mozambique at that time.

transferred instead to a group of individuals in the public service and to Frelimo party officials, who managed to secure favourable bank loans (see Diogo 2013).[14]

Sumich and Honwana (2007: 19) add:

> By taking the initiative and reforming the economic and political structures before the peace agreement had been signed and before Renamo was able to influence the direction of the reforms, Frelimo created a significant advantage for itself (Morier-Genoud 2007). Thus, privatisation, as argued by Pitcher (1996, 2002) and Castel-Branco et al. (2001), was not a neutral, technical measure as the World Bank and the IMF seemed to naively assume, but a deeply political process where Frelimo directed events as much as possible to assure the continuing support of some elements of older constituencies and create new ones.

Thus, as a consequence of policy conditionalities, a 'new' political and business elite (which overlapped in very large measure with the 'old' elite) started emerging that commanded not only political power, as in the early days after independence, but also economic power—and this often without the necessary management training and capacity. Importantly, Renamo associates were in no position to benefit, as they were still in the bush when assets and opportunities were privatized.

2.5 Peace and multi-party elections

Peace returned with the Rome General Peace Accords in 1992, made possible by the political transition from apartheid in South Africa. In 1994, the first multiparty elections led to the election of President Joaquim Chissano, leader of Frelimo, as President of the Republic of Mozambique. There were signs of economic recovery after peace re-established itself, with impressive growth rates, a significant decline in poverty, and the creation of new infrastructure, particularly in the social sectors, supported by the donor community.

Aid flows surged and Mozambique became widely perceived as a donor darling. However, its impressive growth, in large measure due to returning refugees, did not lead to a fundamental transformation of economic structures (see Section 3). Moreover, while some Renamo commanders and soldiers were integrated into the new Mozambican army, no full disarmament took place. Integration into the police force was especially difficult, and the Renamo leader, Afonso Dhlakama, maintained a strong personal protection force.

On the political front, Sumich and Honwana (2007: 18) stress that

> democracy was introduced when the possibility for actual policy differences between parties was at its lowest. Both Frelimo and Renamo campaigned on similar political (i.e. democracy) and economic platforms (i.e. free markets), therefore much of the campaign centred around interpretations of history, with Frelimo using its credentials as the liberator of the nation and Renamo speaking of villagisation and the attack on tradition.

[14] Banks, for example, financed projects put forward by representatives of the elite in power, which led to major losses. Moreover, this process helped institutionalize an entrepreneurial class that depended on political alliances for business success more than on managerial and technical skills. Importantly, as already noted, the timing of the adjustment programme and the privatizations, large parts of which took place before the peace agreement and demobilization happened, meant that one of the parties (i.e. Renamo) was not at the table to participate.

The polarization between Frelimo and Renamo continued, and while the ideological differences weakened, regional and ethnic contradictions came more into focus.

2.6 Dominance of Frelimo

Frelimo maintained political power in the country after the closely contested general election in 1999. Joaquim Chissano continued as President and in the Assembly of the Republic Frelimo held 133 and Renamo 117 seats. Shortly afterwards, Frelimo made an important strategic move 'when the government after six years of debate, in an effort to broaden its social base and weaken Renamo, issued a decree creating "community leaders", which meant that former "régulos" [traditional chiefs] could hold office at the local level' (Sumich and Honwana 2007: 17). Accordingly, the Frelimo government actively sought ways to engage with and remunerate the traditional chiefs by attributing formal duties to them. The system was quite transparent and deliberately visible as chiefs also got uniforms for official occasions and visits. Such relations with traditional authority count a lot in an election, when many voters seek guidance from their local chiefs. While this was a remarkable move considering Frelimo's history as a socialism-inspired liberation movement, it helped Frelimo remain the dominant political power in the subsequent elections.

In 2002, Frelimo elected Armando Guebuza as its Secretary General and presidential candidate. Guebuza moved quickly to strengthen the party structures in all spheres of the public administration and created cells at all levels. He also deliberately chose a government of politicians over technocrats and soon commanded a structure not much different from the one in place under the one-party state. He won a comfortable victory in 2004 and became President in 2005, backed by an overwhelmingly superior financial and organizational machinery amid widespread abstention.

In 2009, a new political party started competing in the parliamentary and presidential elections. The Democratic Movement of Mozambique (MDM) started up as a splinter group of Renamo, led by the mayor in Beira, Daviz Simango, son of one of FRELIMO's first vice-presidents during the liberation war. The Simango family, from the centre of Mozambique, had joined Renamo expecting to create a strong political opposition to Frelimo. But Renamo, dominated by Afonso Dhlakama, was not a democratic party. Young and capable members therefore split away, their aim being to pursue democratic political process. Unlike earlier splinter groups, MDM enjoyed widespread popular support and expectations were that it would win a significant part of the votes, ending the bipolar impasse in Mozambican politics.

However, in what many observers see as a concerted effort to sabotage MDM by Frelimo and Renamo party members of the electoral commission, MDM's lists of candidates were rejected in 7 of the 11 provinces (including Maputo city), leaving the party with no possibility of winning any significant part of the votes. Among the reasons given were missing details in the candidates' dossiers; the whole provincial list was dropped if just one of the candidates, even if it was a substitute candidate, failed to submit all the necessary documents, such as an original birth certificate. Some candidates' dossiers were even 'lost' in the election commission's offices. Donors protested to President Guebuza before the election but to no avail. Nevertheless, Renamo suffered significantly from MDM's appearance on the political scene, and was reduced to only 49 seats in Parliament, while Frelimo was taken by surprise when it lost important areas in Maputo to the new party.

While traditional party politics seemed locked in a Frelimo hegemony, 2008 and 2010 witnessed a surge of demonstrations and popular uprisings in the largest cities. Discontent was ignited by the worsening living conditions among the lower middle class (due, for example, to rising food prices—see Pinstrup-Andersen 2014). Moreover, on both occasions Frelimo and the government underestimated the strength of the reaction. The events, especially in Maputo, had tragic consequences, with police shooting resulting in civilian deaths, including children, and gave rise to a debate within Frelimo about leadership and inclusion. Eventually, President Guebuza controlled the situation partly by force and partly by giving concessions, delaying increases in the price of water, electricity and public transport (fuel).

The Guebuza regime ended in violent confrontation with Renamo,[15] which no longer believed that the government was willing to give in to its demands, including increased decentralization. A last-minute peace deal paved the way for an election in 2014, but even within Frelimo, the issue of succession created problems. Guebuza held on to power as long as he could, and although the Frelimo candidate Filipe Nyusi won the election, he faced massive challenges from his first day in office, as discussed below.

2.7 Recent events

The first of Nyusi's challenges was that the settlement with Renamo was short-lived. Renamo argued that all the problems it had pointed to remained, and the hardliners in Frelimo, who had gained strength under Guebuza's 10-year rule, argued that it was better to solve the Renamo challenge militarily and decisively. So violent conflict escalated and soon central parts of the country were at war. Broken power lines, sabotaged railway lines, and army convoys protecting vehicles on the main roads were once again the order of the day in Mozambique in 2016.

The Nyusi government then chose to negotiate with Renamo and give in to some of its main demands. These included decentralization and the election of provincial governors. This move was sustained even after the death of Renamo's leader, Afonso Dhlakama, in May 2018, which led to a considerable weakening of the party under its new leader, Ossufo Momade. A 14-page constitutional amendment was approved by which elected bodies were created at provincial, district, and municipality levels.

A second challenge was the so-called 'hidden debt' scandal, which had become symptomatic of the increase in corruption Mozambique had experienced over the last couple of decades. While they recognize that the figure is open to contestation, Williams and Isaksen (2016) note in their introduction: 'The average annual cost of corruption to Mozambique was recently estimated to be up to USD 4.9 billion for the period 2004-2014'. The authors, who provide a detailed account (on which the following is based),[16] point out that in the final years of Guebuza's second term, three semi-public entities took out over USD 2 billion in loans from private foreign banks without submitting them to the Assembly for approval, as required by the Mozambican constitution, even though they greatly exceeded the limit placed on government borrowing by the relevant annual budget appropriation bill. Williams and Isaksen (2016) pointedly note:

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[15] There are various explanations of why confrontation broke out again. One is that Frelimo had an incentive to attack Renamo's bases before the election to prevent Renamo going back to armed struggle after the election results were announced and to prevent or weaken Renamo's participation in the municipal elections in 2013. Another explanation is that Renamo may have attacked first, the underlying reason being that Dhlakama's 'hidden fighters' were getting older and knew that the 2014 election was their last chance to get a piece of the peace dividend that they had been promised since 1992. Moreover, Renamo felt that Frelimo was systematically committing election fraud and that the only way to force Frelimo to play the democratic game was through military action.

[16] See also MNRC (2017a, 2017b) and Behuria et al. (2017).

> It is alleged that in order to secure his [i.e. Guebuza's] economic future three semi-public entities – Ematum, Proindicus and MAM – were established in the period 2012-2014 as vehicles for obtaining foreign private loans, to be raised without the knowledge of key government institutions, of parliament, the Mozambican public, or the country's foreign development partners.

The sources of the loans included Credit Suisse and the VTB Bank, and it is clear that Ematum, Proindicus, and MAM were owned and controlled by a very small group of individuals and that they were very closely linked to the security sector. When the existence of the loans became public, the IMF suspended its support to Mozambique and much foreign aid, including all direct support to the state budget (already on a downward trajectory), was frozen or significantly reduced. This drastically restricted the fiscal space of the government and led to an economic crisis that lasted throughout the first term of President Nyusi.[17] The subsequent legal process led in 2019 to the US indictment of former Minister of Finance Manuel Chang and others (see MNCR 2019). While the case continues in the courts, Mozambique's relations with the donor community have started to normalize. A central element in this has been the successful re-establishment of relations with the IMF,[18] illustrated in the approval on 19 April 2019 of IMF emergency assistance following Cyclone Idai, which hit Mozambique earlier in the month, causing massive damage in the centre of the country, including the city of Beira.

A third challenge has been the deteriorating security situation and armed insurgency in the north-eastern province of Cabo Delgado, where Islamic militants have attacked key towns, killing or uprooting well over 100,000 people. The roots of the conflict are still debated, but seem to include a series of local grievances related to social exclusion, combined with interventions from international groups involved in criminal activities, such as ivory and heroin trafficking. The conflict is dangerous in itself but also has the potential to spill over to other parts of the country. Importantly, Cabo Delgado is close to the major gas fields.

The fourth challenge, the discovery of huge gas resources after the turn of the millennium, is also an opportunity to turn the country around, provided appropriate institutions and policies are put in place. The aforementioned hidden debt deals undertaken by the Guebuza regime were likely associated with the decision to start developing Mozambique's massive oil and gas reserves at a time when institutions that provide for various checks and balances were still weak. The creditworthiness of Mozambique stemming from the hype of the gas resources was enough to nourish fraudulent deals, and long before gas exploitation was to begin, speculation and rent seeking was rife. As history and experiences elsewhere in Africa and beyond document, benefiting from natural resources is a most challenging political exercise (see Roe 2018). Meanwhile, on the economic front, Mozambique is engaging with some of the world's largest companies to find the best way of developing the oil and gas sector to the benefit of the country's mostly poor people.

Finally, Mozambique is, like the rest of the world, presently struggling to contain the spread of the COVID-19 pandemic. The first COVID-19 case was reported on 22 March 2020 and a state of emergency was declared on 31 March. While the health and economic impacts of the pandemic

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[17] For an assessment of what happened to multi-dimensional poverty see Egger et al. (2020).

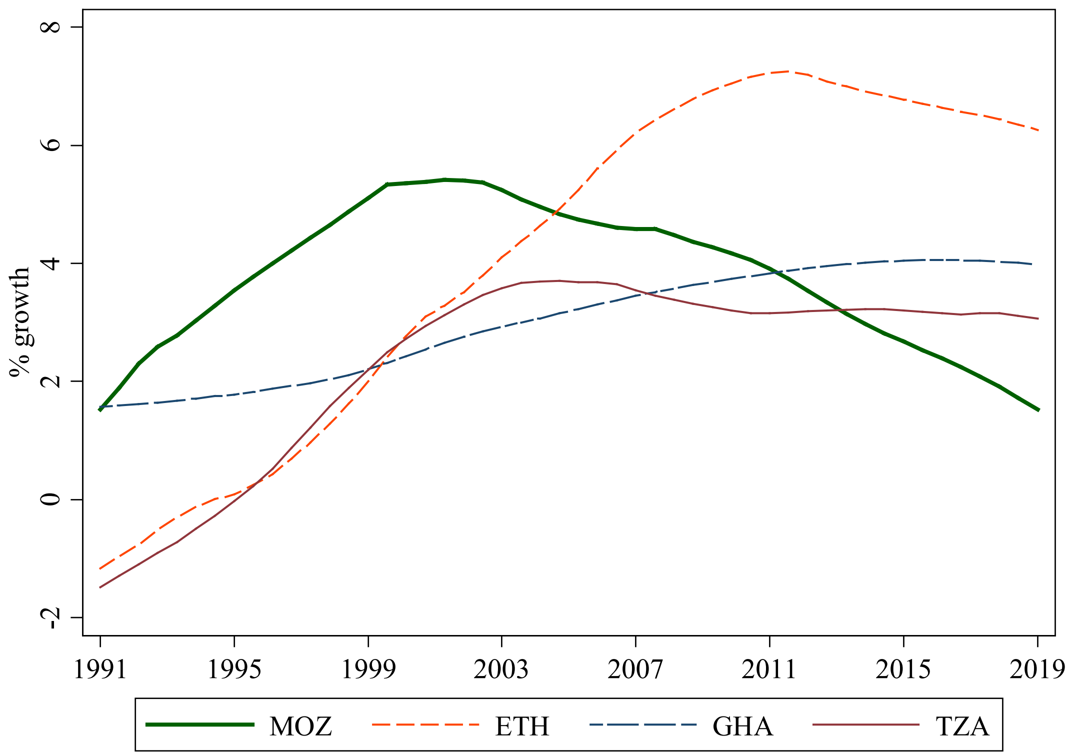
[18] The IMF does not impose conditionalities regarding peace; this happens indirectly via the bilateral donors in the IMF board, who officially blocked both general budget support and programme aid due to the debt scandal. It would appear that this decision also relates to the advances of the security forces in central Mozambique and extra-judicial killings and assaults on Renamo officials. Accordingly, progress was made on ceasefire agreements with Renamo, on the one hand, and foreign assistance and oversight of negotiations, on the other, reactivating cooperation with the IMF after the hidden debt crisis.

are still unfolding, ongoing work suggests that the Mozambican economy might lose 4 per cent growth overall in 2020 compared with a scenario without COVID-19. The COVID-19 crisis and its associated economic effects come on top of the hidden debt scandal and the impacts of Cyclones Idai and Kenneth, highlighting that Mozambique remains highly vulnerable to climatic and policy-induced shocks.

3 Patterns of socio-economic change

Until recently, the donor community generally considered Mozambique a development success story (see Arndt et al. 2007). Since the end of conflict in 1992, real GDP growth (per capita) has been strong, easily outstripping the global average and surpassing many other countries in the region. However, while Mozambique certainly contributed to the 'Africa Rising' narrative (Addison et al. 2017), as indicated in Figure 4, the pace of real aggregate growth peaked at the millennium, slowing moderately during the 2000s. Today, Mozambique is no longer a star growth performer and lags behind its peers in the region, most notably Ethiopia.

Figure 4: Real GDP growth per capita, smoothed (1991–2019)



Note: series are smoothed using a Kernel-weighted local polynomial smoothing algorithm; growth is based on GDP in constant 2011 international prices; countries are as follows: Mozambique = MOZ, Ethiopia = ETH, Ghana = GHA, Tanzania = TZA.

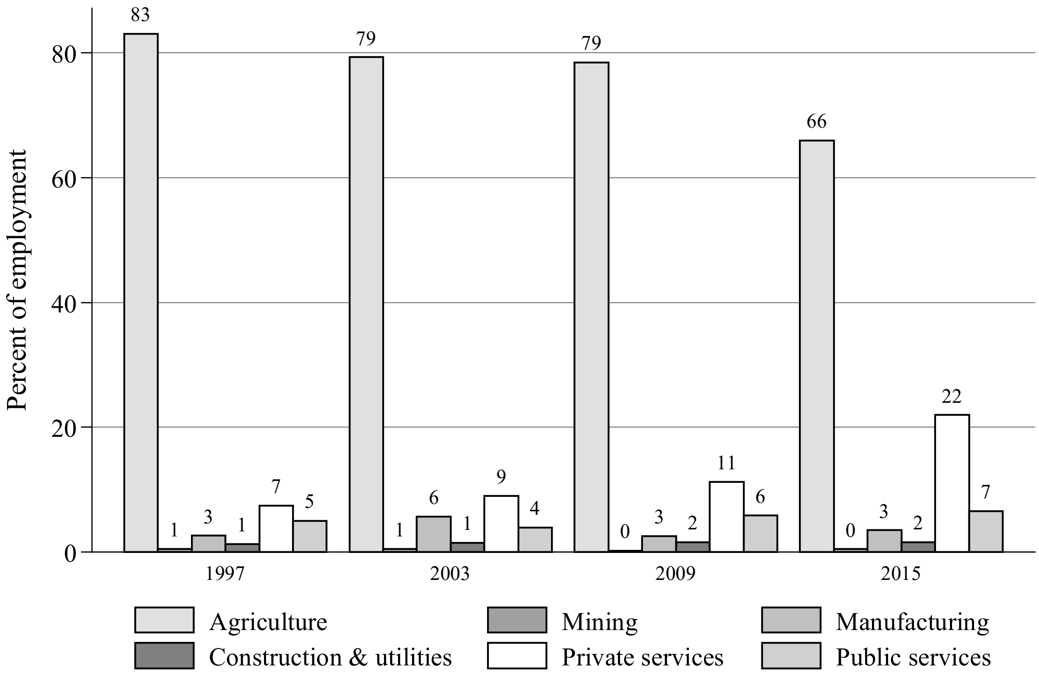
Source: authors' estimates based on data from WDI (World Bank 2020).

This section discusses how the country's economic structure has evolved during this period, as well as the changing pattern of aggregate economic growth. Overall, in the following, we highlight the absence of a consistent domestic engine of inclusive growth, a chronic dependence on external savings, and slowing progress across a range of social indicators, which is also symptomatic of an inefficient and low-capacity public sector.

3.1 Structural shifts

On the return of peace in the early 1990s, Mozambique was predominantly an agricultural economy. As shown in Figure 5, in 1996/97 more than 80 per cent of the workforce identified agriculture as their primary occupation, virtually all of which was smallholder or peasant agriculture, not larger-scale commercial activities.

Figure 5: Sectoral trends in employment (1997–2015)

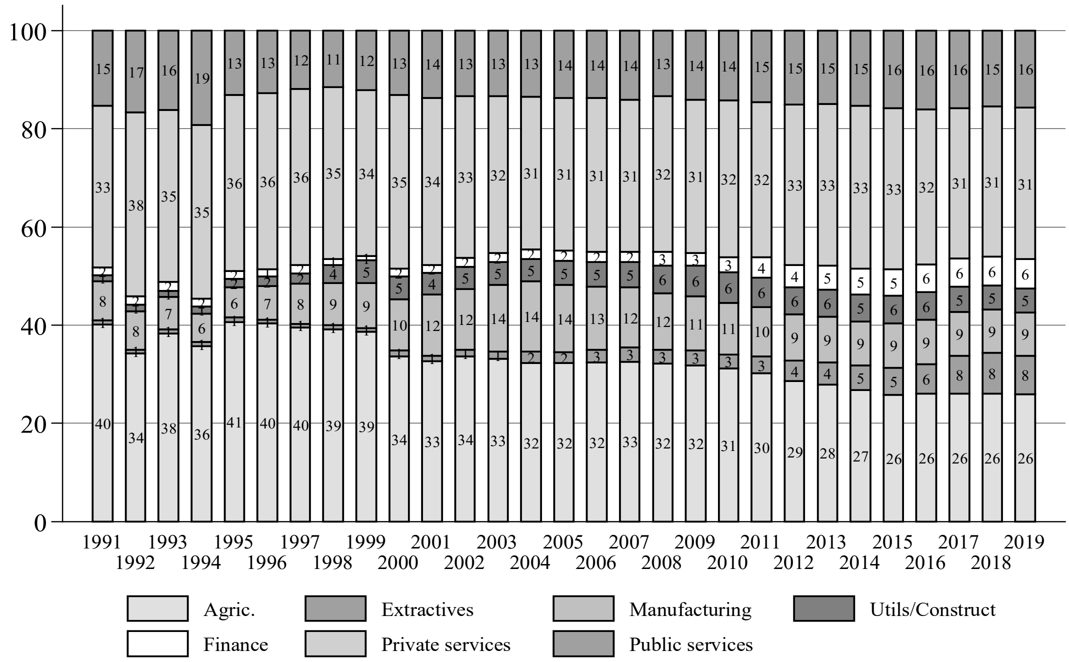


Source: authors' estimates based on household survey data series 1996/97, 2002/03, 2008/09, and 2014/15 (see MEF/DEEF 2016); private services includes finance; public services includes health, education, and public administration.

At the same time, whilst important in terms of total production, agriculture has never represented more than half of aggregate real value-added. Figure 6 shows that even in the early 1990s, agriculture contributed only about 40 per cent to GDP, while service activities (public and private) contributed approximately another 40 per cent. As we discuss below, this clearly indicates that agriculture has been and remains a very low productivity activity on average.

Over time, there has been a limited shift in the structure of the economy away from agriculture. According to the most recent household survey (2014/15), which constitutes the most reliable source of data on the labour force, around two-thirds of workers were primarily involved in agriculture and the sector contributed around one-quarter of total value-added. Labour movements out of agriculture have been largely towards the private services sector, including commerce and transport, which now represents 22 per cent of all employment. However, the value-added of private services has remained flat over time, indicating that new workers in this sector tend to be less productive than existing workers. Figure 7 clarifies this insight, showing labour productivity differentials across sectors relative to the economy-wide average. Labour productivity in agriculture has been about half (-.8 log points) that of the average worker, while the productivity of workers in private services declined over the two decades from 1991 to 2019 from nearly 5 times to just 1.5 times that of the average worker.

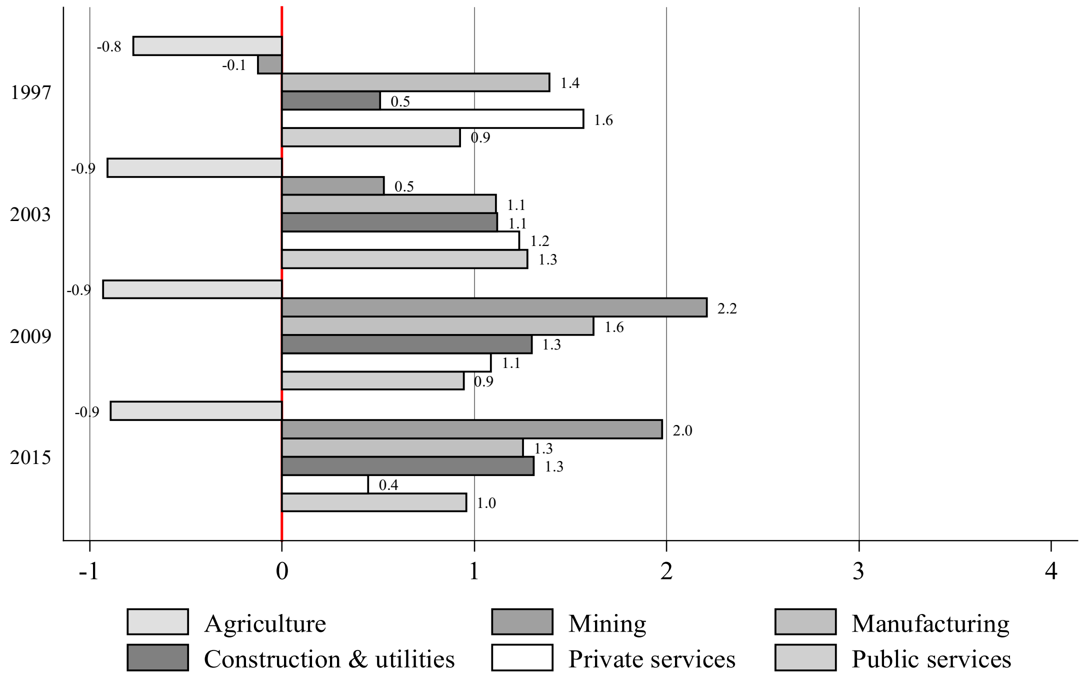
Figure 6: Sectoral contributions to levels of real value added (1991–2019)



Note: figure refers to the percentage contribution to production value-added in constant 2014 prices; public services includes health, education, and public administration.

Source: authors' estimates based on unpublished data from National Institute for Statistics.

Figure 7: Labour productivity differences by sector (1997–2015)



Note: x-axis is the natural logarithm of the ratio of labour productivity of the indicated sector to aggregate labour productivity; thus, values below 0 show lower than average productivity; private services includes finance.

Source: authors' estimates based on household survey data series 1996/97, 2002/03, 2008/09, and 2014/15 (see MEF/DEEF 2016).

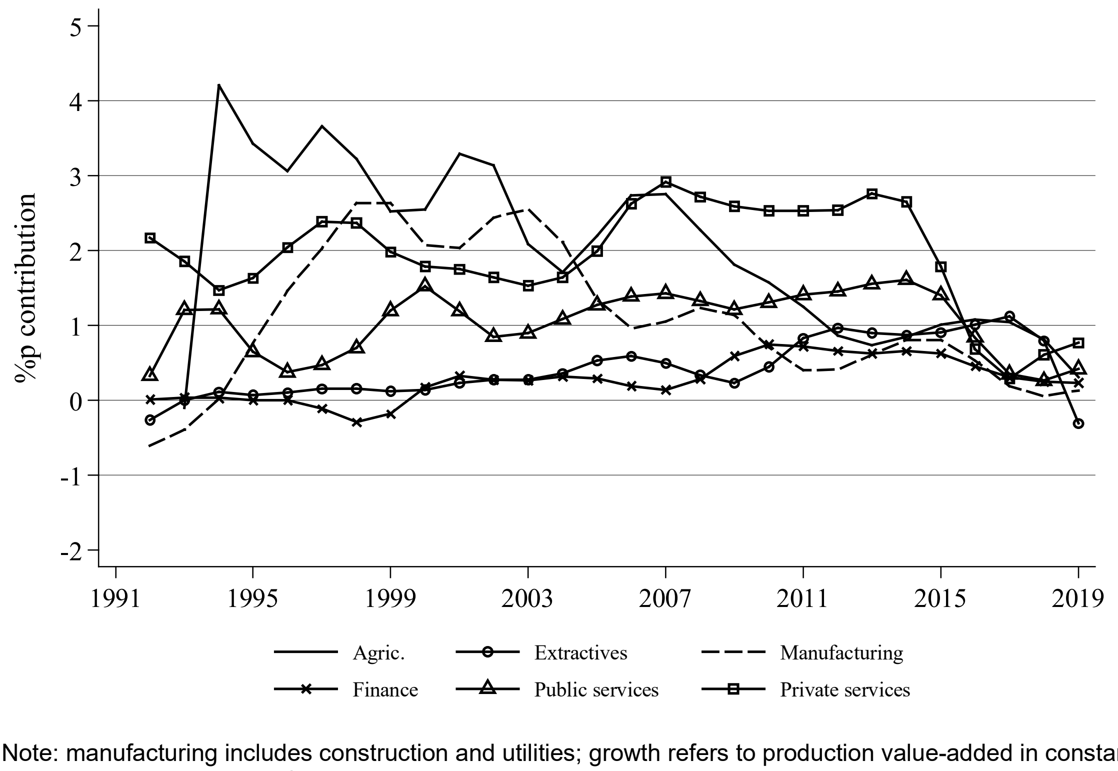
As discussed in detail by Jones and Tarp (2015), who provide a full decomposition of within- and between-sector productivity changes over the same period, the shift of workers has been largely out of very low-productivity agriculture to informal services activities. Thus, the contribution of the services sector to growth since 2003 has been dominated by a sectoral reallocation effect, as even informal services are more productive than agriculture, but not a within-sector productivity effect. In contrast, agriculture has shown fairly robust moderate within-sector productivity increases (over 1 percentage point per year), despite losing workers in relative terms.

The same figures also point to a 'missing middle'. Looking over the full time period, secondary sectors (manufacturing, construction) have remained small, both in terms of their contribution to GDP and in terms of employment. For example, in both 1997 and 2015, just 3 per cent of workers were in the manufacturing sector, and the value-added of the sector was equal to 8 per cent of GDP at the start and 9 per cent at the end of the period. In contrast, mining (extractive industries) has achieved very rapid growth of output, expanding to 8 per cent of real GDP, but with almost no change in its employment share. We return to this point below.

3.2 Changing growth drivers

The changing structure of the Mozambican economy, in terms of both output and employment, hints at how a series of *different* drivers of growth have been operative over the post-war period. Three main growth phases are apparent. First, as further supported by Figure 8, from the mid-1990s to the early 2000s, Mozambique successfully took advantage of the peace dividend, achieving post-conflict stabilization and recovery (see Tarp et al. 2002). In this period, strong rates of growth across multiple sectors, including agriculture, reflected a combination of a return of displaced people to their homes, the rebuilding of private and public infrastructure, supported by foreign aid, and private investment (domestic and foreign).

Figure 8: Sectoral contributions to real value-added growth, smoothed (1991–2019)



Note: manufacturing includes construction and utilities; growth refers to production value-added in constant 2014 prices; non-linear 5 period filter used.

Source: authors' estimates based on unpublished data from National Institute for Statistics.

A second phase, starting in the late 1990s, is associated with strong growth in the manufacturing sector, dominated by large-scale capital-intensive investments, particularly in the Mozal aluminium smelter.[19] This period, which lasted until the late 2000s, also saw robust service sector growth, alongside a sustained and substantial contribution of agriculture (at 2 percentage points), or more than a quarter of aggregate growth per annum.

The late 2000s, however, saw a shift to a third phase, characterized by an emphasis on the natural resources sector (mining), driven by large increases in foreign direct investment (FDI) into coal and then natural gas field developments. This coincided with an expansion of the finance (banking sector), which increased in size from 2 per cent of GDP in the mid-2000s to over 6 per cent in the latest period (see Figure 6). The same period also saw a trend decline in the contribution of agriculture to growth, but strong private services growth.

To get a sense of the magnitude of the recent shift in the sectoral emphasis of growth towards extractives, which has also arguably become a focus of public policy, Table 1 provides a summary of changes in consumption and investment components (reported as shares of GDP), as well as sources of investment funds.

Table 1: Expenditure components and sources of funds, 1999–2019 (as % shares of GDP)

	1999–2004	**2005–09**	**2010–14**	**2015–19**	***Change***
Consumption	0.88	0.90	0.94	0.90	*0.01*
Public	0.16	0.17	0.21	0.24	*0.08*
Private	0.72	0.73	0.72	0.65	*-0.06*
Investment	0.31	0.18	0.40	0.40	*0.10*
Public	0.10	0.10	0.14	0.08	*-0.01*
Private	0.21	0.09	0.26	0.32	*0.11*
Savings	0.31	0.18	0.40	0.40	*0.10*
National	0.12	0.10	0.06	0.10	*-0.01*
Domestic public	-0.08	-0.10	-0.11	-0.04	*0.03*
Domestic private	0.20	0.20	0.17	0.15	*-0.05*
Foreign	0.19	0.08	0.34	0.30	*0.11*
External public grants	0.07	0.07	0.06	0.02	*-0.05*
External public credits	0.03	0.03	0.05	0.03	*0.00*
External private	0.09	-0.03	0.23	0.25	*0.16*

Note: private investment and savings components are calculated as residuals; total foreign savings are derived from the current account deficit plus changes in reserves.

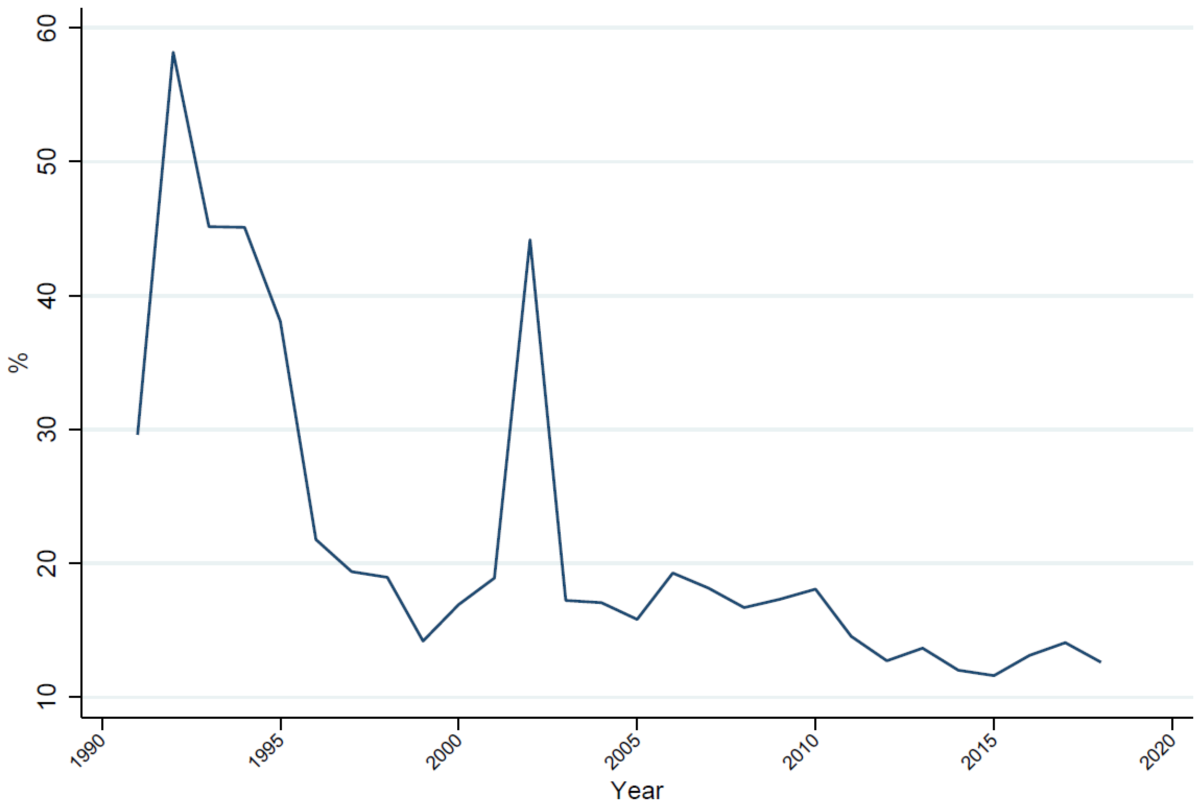
Source: authors' estimates compiled from National Statistics Institute, Central Bank of Mozambique, and Ministry of Economy and Finance (internal).

Overall, we note that Mozambique has always been a consumption-heavy economy. Total consumption has consistently equalled around 90 per cent of GDP and, as discussed below, the public sector has accounted for an increasing share of total consumption. This is not to say that investment has been low; on average it has been sustained at about 30 per cent of GDP, with public investment comprising roughly one-third of total investment.

[19] This investment took advantage of cheap energy and may in some senses be seen as an 'energy' rather than a manufacturing investment in economic terms.

Critically, investment has been financed largely from abroad, indicated by the very large volume of foreign savings (which is the mirror of the current account deficit). During the first period shown in the table (1999–2004), which roughly reflects the beginning of the second growth phase, private foreign investment and foreign aid to the public sector (grants and loans) amounted to nearly 20 per cent of GDP, both in equal measure. In the second half of the 2000s, foreign investments in the manufacturing sector tailed off but aid remained strong. In the last decade, however, FDI jumped to over 20 per cent of GDP as Mozambique opened up to investment in natural resources extraction, and these flows quickly came to overshadow the contribution of foreign aid, which has declined substantially in relative terms (see Figure 9).

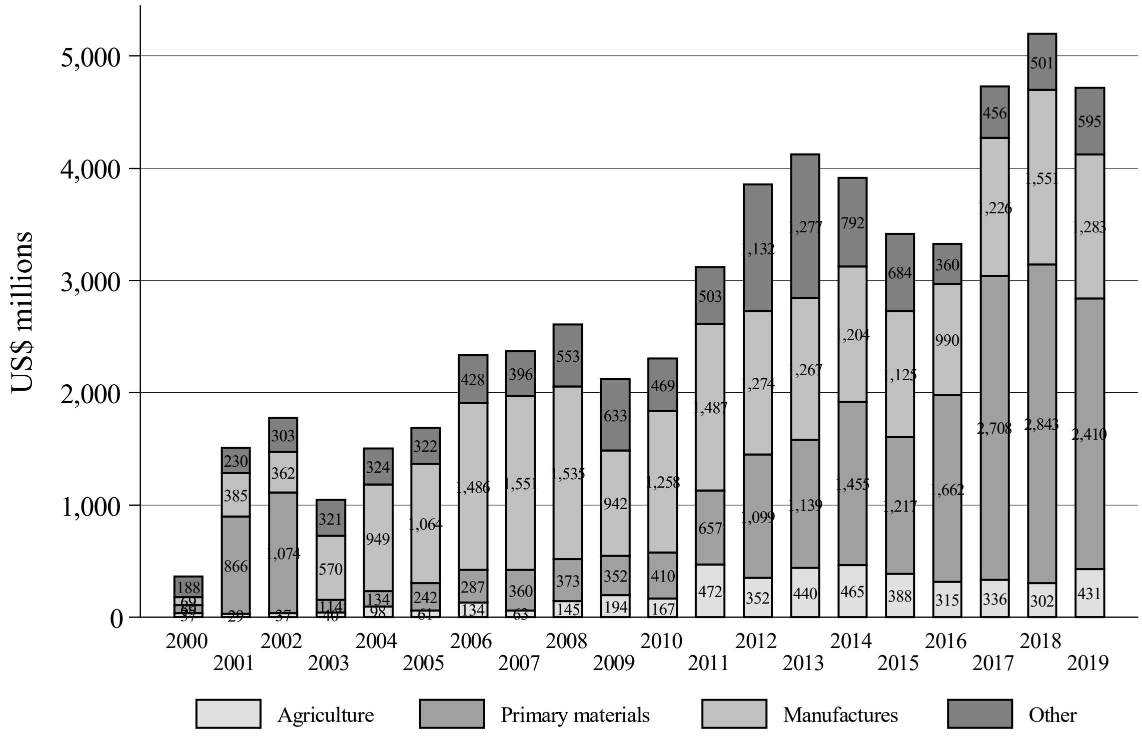
Figure 9: ODA as percentage of GNI, 1990–2018



Source: net ODA received (% of GNI) from World Bank (2020).

Three conclusions can be drawn. First, much of Mozambique's growth has been fuelled by significant inflows of foreign exchange, both public and private, which have generated spillovers either directly into consumption or indirectly into income through investment. Second, however, the pattern of these inflows has shifted increasingly towards capital-intensive natural resource investments, which provides a proximate explanation for the widening labour productivity deficits across sectors (Figure 7) and which by definition also suggests that the growth process has lacked 'inclusivity'. Third, Mozambique has not discovered a consistent (sustained) domestic engine of growth. Rather, not only have growth drivers shifted depending on the dominant source of foreign savings, but also the economy seems to have become less diversified over time. This is evident from Figures 10 and 11, which show the composition of exports and Mozambique's export complexity, respectively. Figure 10 reveals that manufacturing exports (aluminium) plateaued by the later 2000s; but, starting roughly in 2010, natural resources exports (mainly coal) have quintupled in value and now account for around 50 per cent of all exports. Correspondingly, the relative shift towards lower value-added exports (which are lower in complexity) is evident in Figure 11.

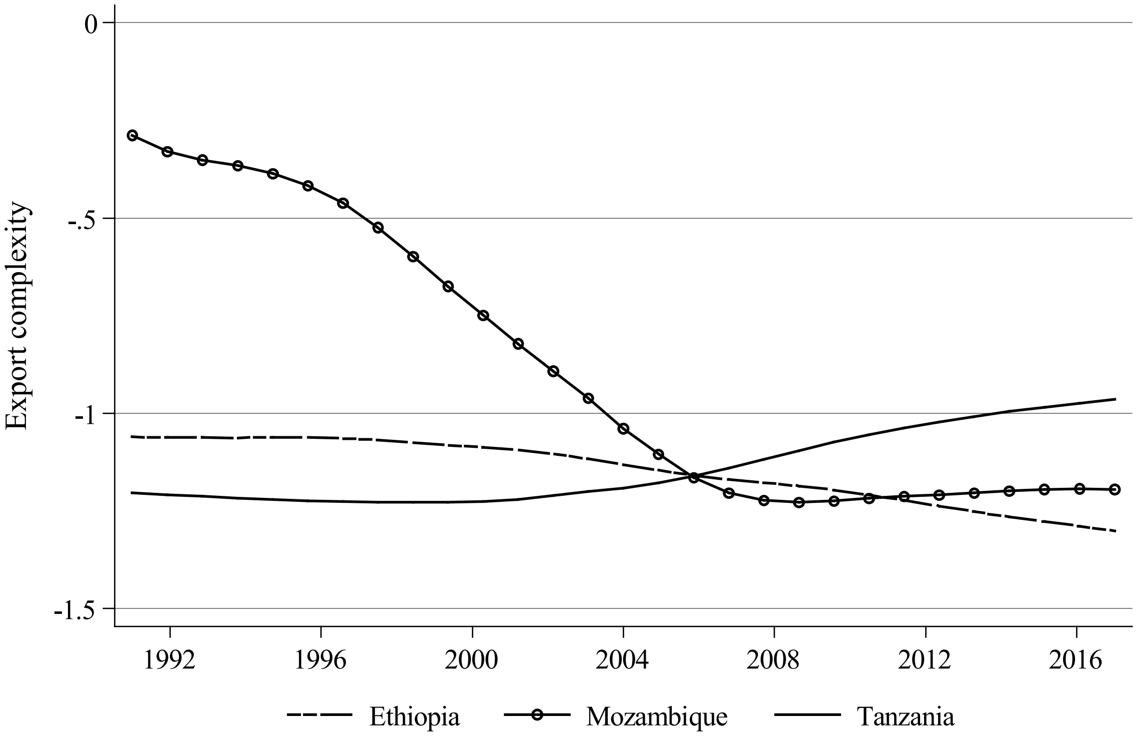
Figure 10: Major exports in US$ millions (2000–2019)



Notes: primary materials includes energy exports; agricultural goods includes fisheries.

Source: authors' estimates based on unpublished data from Central Bank of Mozambique.

Figure 11: Export complexity score (1991–2017)



Notes: lower scores mean less complex exports.

Source: smoothed estimates from The Growth Lab at Harvard University (2020).

These three conclusions are reinforced by trends in the final period, as shown in Table 1, which merit special attention. As discussed in Section 2, in 2016 a series of hidden (illegal) debts taken out since 2013 from overseas commercial banks by publicly guaranteed enterprises came to light. The funds were premised on discoveries of large natural gas fields in the country, but (ex post) appear to have been squandered, various members of the ruling elite and overseas backers being implicated in corruption. Critically, this prompted a major freeze in foreign aid and, correspondingly, a sharp depreciation of the exchange rate. As plotted in Figure 8, growth rates simultaneously declined across multiple sectors and public sector investment approximately halved as a share of GDP (see Table 1)—i.e., the sudden lack of foreign inflows outside the natural resources sector, combined with significant macroeconomic uncertainty, had drastic growth consequences, revealing the fragile nature of the earlier growth and the economy's dependence on foreign savings.

Another way of making sense of these trends is to note that Mozambique has been and remains a highly segmented economy. A large share of the population remains engaged in informal rural economic activities, predominantly smallholder agriculture. In comparative terms, productivity in these activities is low and is strongly associated with high rates of poverty (see below). The substantial FDI over the post-war period has focused on enclave-type industries, with few linkages via employment or provision of inputs to domestic productive sectors. Therefore, as Arndt et al. (2012a) and others have formally quantified, inter-sectoral linkages in the economy have been weak and are highly compromised by poor infrastructure and large transport distances between areas of highest agricultural potential and population mass (rural centre and north) and areas of greatest effective demand (urban south). Furthermore, economy-wide benefits from natural resource development have proven elusive, especially as many investments have not reached the production (profitability) phase. In sum, the pattern of employment creation suggests that the infrastructure and business environment remain weak and skewed against labour-intensive manufacturing.

3.3 Competent macroeconomic management

Despite the most recent period of crisis, the tail end of which has coincided with the current COVID-19 pandemic, macroeconomic management has been competent. Broadly speaking, inflation has been well controlled and fiscal deficits almost fully covered by substantial foreign inflows (foreign aid), rather than domestic debt. Tax revenues have also steadily increased, from a low level, via a combination of sensible reforms and relatively rapid growth of specific formal segments of the economy (e.g. finance, natural resources). Table 2 supports this narrative, summarizing a range of macroeconomic and public expenditure figures for selected years since 2002.[20]

Until around 2015, the combination of increased tax revenue and sustained (although relatively smaller) foreign aid allowed both government consumption and investment to expand. However, most recently we observe that consumption spending now accounts for almost 25 per cent of GDP, while public investment spending has fallen back below 10 per cent of GDP. This is explained by large cuts in foreign aid in reaction to the hidden debts and the ensuing rapid build-up of public debt, external *and* internal, entailing much higher recurrent servicing costs.

[20] The effects of monetary policy and of the limited credit expansion to the productive parts of the private sector, including farmers and SMEs, remain the subject of debate.

Table 2: Macroeconomic and fiscal indicators (2002–2019)

	2002	2005	2010	2015	2019
Macro economy					
Real GDP per capita (US$)	323.7	376.2	466.4	572.6	571.0
Inflation rate (%)	17.3	7.0	12.4	3.6	2.8
RER index	1.1	1.0	1.1	1.1	1.5
Trade balance (% GDP)	-11.8	-5.8	-18.8	-37.4	-26.0
Public sector					
Tax revenue (% GDP)	8.7	10.7	16.8	24.4	28.9
Current expenditure (% GDP)	16.2	12.3	16.3	17.3	24.5
Investment expenditure (% GDP)	8.7	8.2	11.6	13.0	7.5
Deficit (% GDP)	-16.2	-9.8	-11.1	-5.9	-3.1
Domestic public debt (% GDP)	3.0	9.6	6.1	13.4	28.4
External public debt (% GDP)	72.8	60.5	37.3	74.8	96.1

Source: Ministry of Economy and Finance database, unpublished.

Thus, as compared with the mid- to late-2000s, when Mozambique benefited from highly favourable debt write-offs, the government is now in a considerably more fragile fiscal position, with debt at distressed levels. Furthermore, the build-up of public debt has not been matched by any boost in investment spending that could be expected to yield future dividends.

3.4 Steady but slowing social progress

Table 2 confirms that the real pace of growth on a per capita basis is hardly phenomenal. Since 2000, the average real per capita growth rate equals just 3.4 per cent per annum, implying that it will require more than 20 years to double real incomes. Thus, Mozambique remains a very poor country by any measure. In 2017, Mozambique ranked 180 of 186 countries in terms of real GDP per capita (IMF 2018); and 180 of 189 on the UN's human development index (UNDP 2018: 22–25).

The post-war period has shown progress on a range of social indicators, including consumption and multi-dimensional poverty. Data from a series of household surveys, undertaken approximately every five years since 1996, show particularly strong gains in poverty reduction in the immediate post-conflict period, but less impressive gains since then (see Table 3).

Table 3: Metrics of poverty and inequality in Mozambique, 1996/97–2014/15

	1996/97	2002/03	2008/09	2014/15	Growth (%)
No. consumption baskets	0.7	1.0	1.0	1.1	2.1
Poverty headcount (%)	68.8	52.7	51.5	46.3	-2.2
Poverty gap (%)	28.7	19.3	19.0	16.7	-3.0
Squared poverty gap (%)	15.3	9.5	9.7	8.3	-3.4
Gini (x100) (%)	40.5	41.5	41.7	46.8	0.8

Note: 'No. consumption baskets' reports the number of baskets that the median household can purchase, a value of 1 being equivalent to the Cost of Basic Needs poverty line; the poverty gap and its square are expressed as a proportion of the poverty line; growth is annualized over the full period.

Source: authors' calculations from household survey microdata (see MEF/DEEF 2016).

This is also consistent with the narrative, outlined above, of a weak connection between specific sources of aggregate demand (sectoral) growth and employment. Over the entire period, we estimate that the consumption poverty headcount fell by 2.2 per cent per year, well below the aggregate rate of growth. In turn, inequality has increased, again suggesting that growth has not been broadly shared,[21] and this tendency has worsened since 2015 (Egger et al. 2020).

Table 4 summarizes progress in a range of other socio-economic dimensions, including household ownership of assets or capital (economic and human) (see MEF/DEEF 2016).

Table 4: Household-level indicators of access/ownership of key assets

Indicator	1996/97	2002/03	2008/09	2014/15	Change
Literacy	52.3	54.4	55.4	58.4	6.2
Electricity	6.1	8.9	15.2	27.1	20.9
Clean water	27.0	41.4	42.5	52.3	25.3
Sanitation	4.5	14.0	18.0	28.4	23.9
Roofing	21.8	29.2	32.7	42.0	20.2
Transport	17.6	34.4	45.3	44.4	26.8
Information	36.9	57.2	62.6	75.4	38.5
Durables	12.7	20.5	31.3	50.4	37.6
Mean	22.4	32.5	37.9	47.3	24.9

Notes: Indicators are percentages of the total number of households.

Source: authors' calculations from household survey microdata (see MEF/DEEF 2016).

These are all dummy variables which take a value of 1 if the household: head is literate, has access to electricity, has access to clean water, has clean sanitation, has a robust roof, owns some means of transport, has access to information technology (e.g. telephone), and owns some durable goods (e.g. bed). Throughout the period, all indicators have shown progress. Even so, absolute deprivations are widespread—only about half of adults are literate, half of all households have access to clean water, and less than a third have adequate sanitation. So, despite 25 years of steady growth in the post-war period, plus sustained access to large volumes of foreign savings, a lot remains to be done to ensure that all Mozambicans enjoy a decent standard of living.

3.5 Public sector (in)efficiency

The foregoing raises the important question: how efficient or cost-effective is the public sector in delivering core public services? As already noted, the *relative* size of the public sector in the economy has grown substantially. Table 1, for instance, shows that total government current expenditures have increased by almost 10 percentage points in relation to GDP, implying far more rapid expansion than in the private sector as a whole. However, according to Figures 5 and 6, the employment share of the public sector has increased only moderately, while the real value-added of public services (which includes privately provided health and education) has been almost flat over time. In this sense, there is no clear indication (in aggregate statistics) of any significant real economic impacts of the increased spending.

Table 5 compares budget allocations to outcomes in education and health for a range of sub-Saharan African countries. It shows that on a per capita basis, social sector spending in Mozambique is comparable to elsewhere (in the middle). Yet outcomes in Mozambique are

[21] For a comprehensive set of analyses of the experience of stagnating poverty between 2002/03 and 2008/09, when inequality remained the same and growth per capita occurred, see Arndt et al. (2012b). Essentially, the terms of trade shock due to the food price crises helped drive aggregate consumption down as a share of GDP.

considerably poorer—e.g., while more than 90 per cent of children attend primary school, the primary school completion rate is only around 40 per cent versus 80 per cent in neighbouring Tanzania; and under 5 mortality is 74.2 per 1,000 live births versus 53.0 in Tanzania.

Table 5: Comparison of social sector spending and outcomes

	Education		Health	
	Spend	Primary completion	Spend	Under 5 mortality
Ethiopia	9.44	47.0	3.83	55.2
Ghana	22.57	66.0	10.58	47.9
Malawi	3.59	47.0	1.68	49.7
Mozambique	**13.28**	**41.0**	**6.56**	**74.2**
Tanzania	15.55	80.0	5.97	53.0

Note: spend indicates budget allocations in 2019, in real US$ per capita (for the population as whole); 'primary completion' indicates the primary school completion rate.

Source: Government Spending Watch (2020); UNICEF (2020).

Of course, Mozambique's troubled history explains part of this gap, but other sub-Saharan African countries, such as Ethiopia, also entered the 1990s in dire circumstances and would seem to have made stronger progress and at a lower fiscal cost. Additionally, evidence in Mozambique points to extreme and persistent spatial disparities in access to public services (see Egger et al. 2020). The more urban south of the country tends to enjoy not just better quality services but also much higher effective public spending than elsewhere. Thus, overall, the public sector would seem to be not cost-effective and marred by inequities in allocations that fail to benefit the poorest.

3.6 Taking stock

The evolving pattern and complexity of Mozambique's growth trajectory, as well as the sheer scope of the challenges the country continues to face, limits the value of attempting to reduce this experience to a few well defined underlying causes. We would argue that many of the conventional factors identified as constraints to growth may well be symptomatic of a deeper malaise, namely the lack of a clear (vision for a) domestic engine of growth and an excess reliance on external savings to finance demand.

While no formal comprehensive growth diagnostic in the spirit of Hausmann et al. (2005) has been undertaken for Mozambique to date, a range of less formal 'diagnostics' point to weaknesses across multiple domains. These include low private returns to economic activity as well as the high costs of finance (the two distinct primary branches of the growth diagnostics framework). These exercises frequently end up documenting a long list of symptoms and do not identify specific 'deep' causes or reform priorities.

Lledó (2007), for instance, notes that in both 2002 and 2006 firms identified the high cost of finance as a primary concern. However, on top of this, he notes that median returns to manufacturing firms are near zero, which reflects the 'combined impact of low social returns and limited private appropriability' (p. 344). In a more recent exercise, the World Bank (2016) echoes a similarly wide range of key challenges: 'Inadequate physical and logistical infrastructure, excessive bureaucracy, weak public institutions, credit constraints and a complicated land-tenure system continue to discourage investment and narrow the range of economic opportunities available to domestic firms' (p. 35).

The point is not that these diagnostics are necessarily wrong. Rather, it is that it is difficult to isolate unique growth constraints/opportunities or untangle causes from symptoms given the range of challenges and the segmented nature of the economy.

In the same spirit, it can be highlighted that previous diagnostic exercises for Mozambique have placed wildly different interpretations on the direction of public reform efforts. Ten years ago, improvements in the business environment were seen as impressive and indicative of a strong and coordinated government commitment:

> Progress in reforming business registration has been remarkable. New regulations simplifying the start-up of commercial and industrial activities were issued in 2004. […] As a result, the start-up time for new firms in Mozambique decreased by almost three months, from, on average, 113 days to 29 days (Lledó 2007: 337).

Nonetheless, a 2017 diagnostic of the business environment suggests that these reforms have been cosmetic, that there is 'a lack of political will to implement reforms because the status quo benefits politicians and the politically-connected [… and] business registration reform […] has resulted in little improvement of the process for entrepreneurs' (Franco and Katiyo 2017: 19–20).

Put differently, views change as to where priorities lie and where genuine progress has been made. And, as yet, there does not seem to be a strong politically independent domestic constituency for deeper reforms.

In our view, what this amounts to is not a specific set of distinct technical growth constraints per se, but a more general failure to prioritize the upgrading of domestic competencies in either the public or the private sector beyond that of servicing international demands. A vision of a self-sustaining process of growth and development has been absent, and in its place a fragmented and shifting external orientation has dominated, most recently degenerating into growth-damaging rent-seeking. Many of the growth challenges represent symptoms of this failed vision and corresponding growth engine.

Looking ahead, a key risk is that this lacuna will only expand as natural resource extraction (natural gas) plays a stronger role, cementing rentier elements in the public and private sectors, and undermining competitiveness elsewhere in the economy. In the short to medium term, significant public finance gains from these industries are likely to be lacking, while exposure to commodity price volatility is likely to become more acute.

Avoiding an Angola-style scenario of deepening inequality and a bloated public sector that fails to deliver quality public services must be the priority. And this is especially important in Mozambique given political and spatial tensions that have already boiled over into military conflict, as discussed in Section 2. Sadly, with public investment weakening and high debt obligations, the capacity of the government to support inclusive structural transformation has weakened since the late 2000s. Thus, decisive action must be taken.

4 Conclusion

In this chapter, we have laid out the historical, political, and economic context that puts development challenges in Mozambique in perspective. We have drawn attention to the big picture story—the deterioration in the comparative institutional performance of Mozambique between 2005 and 2019/20, which we explain in detail in Chapter 3. Overall, we have argued, in Section 2, that contemporary Mozambique and its development challenges cannot be understood without reference to the troubled history of the country. On the political side, this includes the continued confrontation between the dominant political party, Frelimo, and the opposition in Renamo, which remains extremely tough, affecting state as well as institutional reform capacity.

In Section 3, we highlighted that, while the 1990s saw recovery from war and political conflict, there has not been a consistent domestic engine of inclusive growth in spite of a comparative advantage in agriculture and agro-industry. A vision of a self-sustaining and inclusive process of growth and development has been absent. In its place, a fragmented and shifting external orientation has dominated, most recently degenerating into growing rent-seeking and corruption following the discovery of major gas deposits in the Rovuma basin and elsewhere.

The core messages, which the reader should keep in mind throughout the remainder of this volume, are:

- Historical roots go deep and include regional fragmentation and ethnic diversity. Colonial exploitation left Mozambique at a very low level of living standards to begin with and whatever institutions had existed, collapsed with independence in 1975.
- Independence came late to Mozambique at a time when the Cold War was unfolding and the anti-apartheid struggle was intensifying. Rhodesia and South Africa decided to support Renamo and inflicted massive damage on Mozambique from the early 1980s onwards.
- The Marxist-Leninist regime that prevailed from 1977 impacted greatly on socio-economic development in the early years of independence. Misconceived policies were forcibly introduced and influential members of the Frelimo leadership opposed private sector development.
- For some 15 of the 45 years since independence in 1975, Mozambique has been engulfed by violent conflict and political instability. The political and economic legacy of this is far from negligible and, when combined with frequent changes in policy direction, explains why Mozambique remains close to the bottom of the scale in terms of GDP and human development.
- The succession of crises—the Renamo/MNR war, the Rhodesian and South African military aggressions, droughts followed by floods, and donor-prompted reforms in 1986/87—imply that Mozambique has not been a 'normal' country, with time to settle and look into itself, to project and build its future in an environment of tranquillity.
- The international donor community responded to the Economic Rehabilitation Programme in 1987 and peace in 1992 with significant amounts of foreign assistance in the form of humanitarian aid and soft loans. Economic recovery took place but a growth engine for sustained inclusive development remained absent.
- The liberalization and privatization inherent in the structural adjustment programme was not a simple technical measure in a context where no entrepreneurial class existed and where Renamo was still operating in the bush. This resulted in assets and income being transferred to people associated with Frelimo and public administration, and in the merging of political and economic power. This opened up possibilities for rent-seeking and elite capture and stands out as a major institutional challenge.
- An underlying assumption of the Economic Rehabilitation Programme was that, by getting prices right, agriculture would excel. This quickly proved unrealistic in wartime conditions. Agriculture's progress in the 1990s seemed due, in large measure, to the return of refugees. Subsequently, Frelimo has failed 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 collapse of credit institutions, including the de facto (in kind) credit provision provided by settler farmers to indigenous peasants before independence, and the devastating mining of assets in commercial banking during the structural adjustment programme left Mozambique with a very non-inclusive banking sector.
- We stress that Mozambique was born into a violent conflict with two of Africa's strongest countries in terms of economic and military power (South Africa and Rhodesia) and these were the exact two countries Mozambique's own economy and infrastructure had been developed to serve and do business with. That old systems took hold again in the mid-nineties form part of the explanation that there is no domestic growth engine, as noted above.
- Looking at the period starting in the 2000s and focusing on the public sector, it is clear that efficiency and effectiveness are well below capacity in spite of the relatively large size of the public sector. While social spending is comparable to that of neighbouring countries, outcomes in Mozambique are considerably poorer and the more urban southern part of the country enjoys not just better quality services but much more effective public spending than elsewhere.
- Solid macroeconomic management played a key role in addressing the economic crisis that erupted following the hidden debts scandal in 2016, even if the costs to the economy in terms of growth due to the stabilization measures needed were significant. Importantly, continued sound macroeconomic management will be crucial when revenues from the huge gas resources start flowing. Macro management will have to pursue policies that promote the supply side of the economy. This must involve a focus on offsetting Dutch disease by investing in tradeable exportable sectors, implying a very strong role of agriculture and agro-industry in national plans and strengthening institutional delivery. The same goes for the promotion of labour-intensive private sector development.
- Foreign aid flows and the role of donors have been of critical importance throughout the modern history of Mozambique, and will continue to be significant, as public revenue from the development of the natural resources sector will lag by at least a decade. While foreign financing has been hugely important for the funding of public expenditures, including critical investment in human capital and infrastructure and much needed humanitarian relief, aid has also been associated with the side effects of aid dependence, including Dutch disease, lack of agency, and undermining of local institutions.
- As already alluded to, Mozambique has experienced violent conflicts at different stages since independence. Among the most recent is the military insurgency in Cabo Delgado. The causes of this conflict are still debated, but likely include local discontent caused by limited socio-economic development and activities of both local and international Islamic groups in an area where illegal trade has been prevalent. If these tensions are not effectively addressed, they may spill over to other parts of northern and central Mozambique.

These insights motivated the selection of nine thematic areas, which are explored in Chapters 4 to 12, with a view to furthering our understanding of current development challenges and existing institutional weaknesses. Accordingly, these chapters delve more deeply into issues related to: the importance of agriculture and the potential and risks of natural resources exploitation; the management of public finances and the provision of education and health care, as well as access to financial services; the challenges in the legal sector and in the process of decentralization; and, finally, the evolving relationship between Mozambique and the donor community.

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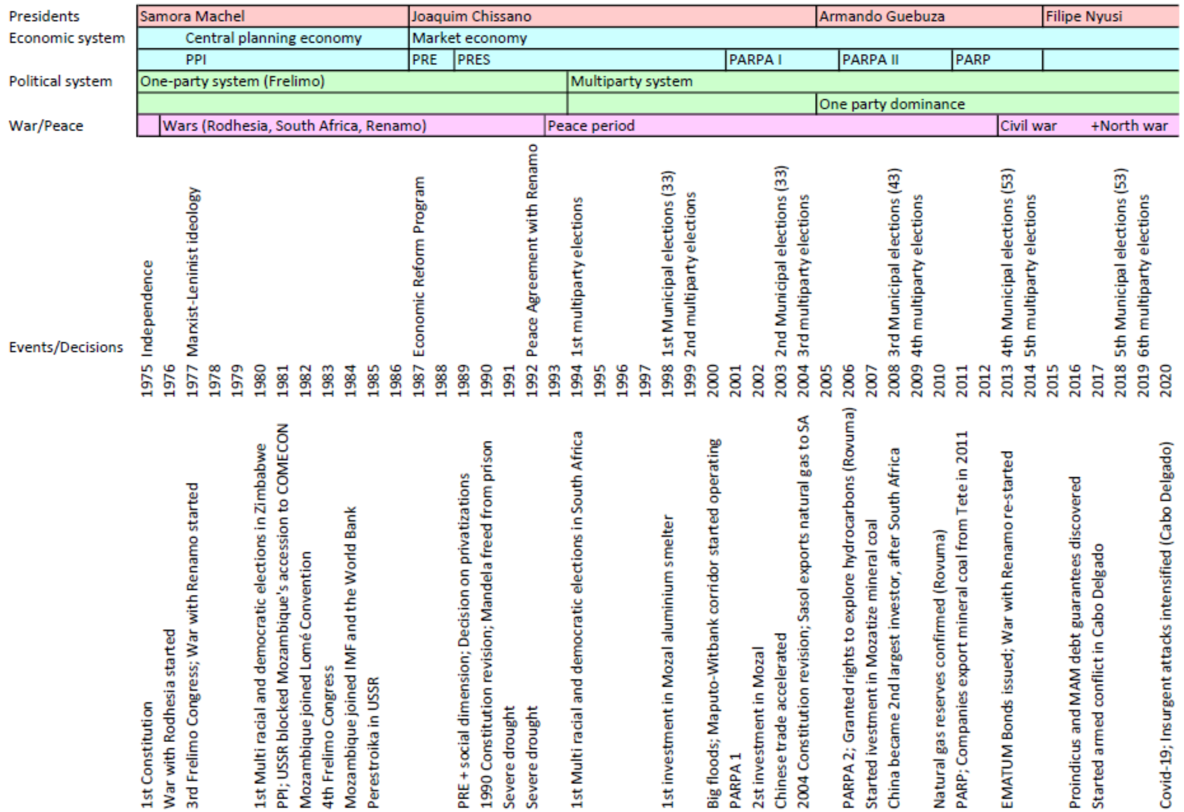
Appendix

Figure A1: Mozambique timeline for an institutional analysis of socio-economic development



Source: authors' compilation based on AfDB and OECD (2004), Andersson (2002), Brito (2019), Castel-Branco et al. (2001), Cruz et al. (2018), Intellica (2015), Jansson and Kiala (2009), Orre and Rønning (2017), and Simão (2020).