

Mozambique

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1 Introduction

This article argues that Mozambique satisfies the three criteria that define 'turnaround': a durable cessation of violent conflict, sustained economic growth and sustained improvements in human development indicators. What explains, contributes to and sustains Mozambique's turnaround is the implementation of relatively successful

- *economic reforms*: structural adjustment programme, privatisation, financial sector reform, investment promotion, sound macroeconomic management, exchange, trade and price reforms and public expenditure adjustment; and
- *political reforms*: the approval of the 1990 constitution that enshrined liberal and multi-party democracy, the 1992 Rome peace agreement, the repatriation and resettlement of millions of refugees, multi-party democratic elections, democratisation and public sector reforms.

Each of the economic and political reforms has been implemented to address the causes and consequences of civil war and the problems of promoting development and the re-legitimisation of the Mozambican state. The relatively successful implementation of economic and political reforms yielded macroeconomic and political stability which, in turn, contributed to large flows of foreign direct investment (FDI) and investors' confidence in Mozambique's capacity to sustain its turnaround. Despite the outstanding economic and political performance, Mozambique's long-term macroeconomic and political stability are threatened by allegations of increased levels of corruption in government institutions, the fragility of the multi-party system, a high dependence on foreign aid, and a deficient national taxation system. To what extent over the longer term can a country sustain poverty-reducing economic growth, rising exports and macroeconomic stability in the context of high

dependence on aid, a possible decline in aid and deficient national taxation strategies?

2 Background

In the wake of the 1992 Rome peace agreement, Mozambique has gone through political and economic restructuring, moving rapidly from a 16-year civil war and one-party autocracy to multi-party democracy. It has also pressed forward with the liberalisation of the economy, foreign trade, and the privatisation of state-owned enterprises. Improved financial discipline has resulted in inflation falling from high levels in the 1990s to 6 per cent in 2003. Apart from privatisations, market-driven exchange and interest rates, and full convertibility of the national currency, the establishment of a stock exchange and other financial sector reforms demonstrate Mozambique's orientation towards private sector-led economic growth and stability. Annual gross domestic product (GDP) growth averaged 5.5 per cent between 1987 and 1996, and 11 per cent annually between 1996 and 1999. Much of this impressive performance resulted from foreign aid. From 1987 onwards, Mozambique received US\$ 8 billion in foreign aid, equivalent to US\$ 600 million, annually. More than 50 per cent of government spending and 75 per cent of public investment have been financed by foreign aid (World Bank 2000: 2–6).

Mozambique's Poverty Reduction Strategy Paper (PRSP) for 2001–5, which sets out a commitment to reduce poverty to 50 per cent of the population by 2010, observes that Mozambique needs to attain sustained annual growth rates in GDP of 8 per cent, over the next six years. In addition to the PRSP, the government has developed a long-term development blueprint, *Agenda 2025: Vision and Strategy of the Nation*, for dealing with absolute poverty and socio-economic development over the next two decades. However the HIV/AIDS pandemic threatens to reverse all these gains. Approximately

Table 1 **Mozambique's economic growth rates and human development indices**

Average real economic growth rate (1993–2001)	Human development index			
	1990	1995	2000	2002
8.2	0.310	0.318	0.342	0.354

Source Derived from the World Bank's World Development Indicators and the UNDP's *Human Development Reports* for the selected years.

14.5 per cent of the population is HIV-infected and HIV/AIDS is having a devastating impact on institutions and the people, and compromises the country's ability to achieve sustainable development over the longer term.

Mozambique's presidential and parliamentary elections of 1994 and 1999 took place peacefully, although some opposition political parties have questioned the fairness of the electoral process. The ruling Frelimo party won the majority of seats in parliament, and its candidate for the presidency won the post. The third presidential and parliamentary elections occurred on 1 and 2 December 2004, in which the Frelimo party and its candidate for the presidency – Mr Armando Emílio Guebuza – had a landslide victory.

Democratic decentralisation was introduced in 1998, with the first-ever local elections in 33 municipalities (most of which are mainly rural). The aims were to give decision-making powers and responsibility to people who have a legitimate stake in and knowledge of local development needs; to increase community participation in local governance and local economic development; and to increase the speed and flexibility of decision making while generating additional resources and encouraging more efficient and effective use of existing ones. It was also intended to spread the gains of democratisation to local contexts; and to improve the effectiveness of the central government by providing a check on its performance and curbing antagonisms between central and local institutions. The second local elections were held successfully in November 2003 in which five of the 33 municipalities passed peacefully to the Renamo-led opposition (including the second largest city of Mozambique, Beira). The results of this municipalisation process have thus far been – with some variations – positive: improvements in service delivery, the management of local affairs, community

participation, revenue collection, accountability and transparency (Kulipossa 2004a).

All of these changes have established a framework for governance and administration based on democratic principles: representation, political equality, limitations on state power and extended political participation. This has contributed to Mozambique's 'turnaround': a durable cessation of violent conflict, sustained economic growth, and sustained improvements in human development indicators (see Table 1).

This study attempts to outline how Mozambique achieved 'turnaround' by first providing a background to why Mozambique became a poor performer and experienced violent conflict and second, discussing and explaining the factors contributing to and sustaining Mozambique's turnaround. It is argued that Mozambique implemented each of the economic and political reforms to address the consequences of civil war and its internal causes and the problems of promoting development and the re-legitimisation of the Mozambican state. The sequencing of reforms was predicated on the assumption that achieving sustainable development requires an appropriate interaction between economic and political reforms, starting from those perceived to be relatively easy before implementing the most difficult ones. Hence, Mozambique first addressed economic reforms in preparation for more difficult political reforms.

3 Why Mozambique experienced violent conflict

Mozambique was embroiled in a civil war for 16 years. Two main political forces were involved in the war: the Front for Liberation of Mozambique (Frelimo) and the Mozambican National Resistance (Renamo).¹ The causes of the civil war are not officially known but a common semi-official explanation is a combination of internal and external causes. However there is no consensus as to what these causes were. This is because different social

groups and academics have put forward competing explanations of the causes of war (O’Laughlin 2000: 29–42). For some people, the internal causes that led to civil war include power struggles over access to and the distribution of resources, monopolisation of political power and the corresponding weakness and fragmentation of broad-based political networks, marginalisation of representatives of the traditional African structures of governance, the collectivisation of agricultural development, the militarisation of the society, Frelimo’s imposition of a fixed Marxist–Leninist political system, and the exacerbation of already entrenched tensions between regions and communities.

The external causes relate to the fact that the proclamation of Mozambique’s independence in 1975 and its commitment to building a new society based on equality and social justice for all citizens had antagonised the then racial and minority regimes in South Africa and Rhodesia (now Zimbabwe). Mozambique’s support to the African National Congress (ANC) of South Africa and to the ZANU and ZAPU liberation movements of Zimbabwe, coupled with its firm stand against apartheid and oppression in Southern Africa, also contributed to the climate of confrontation and enmity with both regimes. Therefore, Rhodesian and South African secret services set up Renamo, financed and trained it in order to destabilise Mozambique and undermine the fulfilment of its political and economic agenda through low-intensity guerrilla warfare. In addition, Mozambique’s close relations with the Non-Aligned Movement and the former Communist bloc made it a Cold War battleground.

It should be noted that although the Rhodesian and South African secret services created and supported Renamo in its struggle against Frelimo, it has been internally supported by Frelimo’s dissidents, Renamo’s captives, and local populations in Renamo’s controlled areas. But how did all this happen? What led to this devastating war?

According to Luís Benjamin Serapião, the Mozambican civil war was triggered by systematic purges of military commanders, including those who had taken part in the struggle for independence, and other Frelimo cadres suspected of not agreeing with the Marxist–Leninist ideology. In May 1975, 5,000 former Frelimo members were considered traitors; in August of the same year, various top army

commanders were expelled and sent to prisons or re-education camps; in December 1975, the government successfully cracked down on a rebellion and ‘those involved in it were severely punished’; and in February 1976, five members of Frelimo’s Central Committee were also expelled from the party (Serapião 1989: 11–12). Among the top military commanders expelled were André Matadi Matsangaisa – the first president of Renamo – and Afonso Marceta Dhlakama – the current president of Renamo. Both had escaped from a re-education camp and then went to Rhodesia where they received logistical support and assistance to fight against Frelimo. In June 1976, the Rhodesians set up the ‘Voice of Free Africa’, a radio station aimed at broadcasting anti-Frelimo propaganda. In February 1977, André Matsangaisa, Afonso Dhlakama and other Frelimo’s dissidents returned to Mozambique through Manica province to fight against the Frelimo government.

Already in Manica province, a small group of Renamo’s fighters mounted a successful raid against a re-education camp, freeing 500 detainees. Of these, 300 detainees were incorporated into Renamo’s ranks. Apart from targeting re-education camps where most Frelimo dissidents were sent, Renamo fighters adopted outrageous methods of kidnapping, ambushes, threats, destruction of villages and farms of local populations, sabotage and mutilation to force people to adhere to Renamo’s objectives, increase the number of guerrillas, and widen its base of support inside Mozambique, as reported in a range of studies on the subject.²

This explains the overwhelming increase in the number of fighters and the pace at which the war was spread throughout Mozambique. According to Serapião, the number of Renamo fighters increased steadily from 917 in 1978 to 4,500 in 1979; from 10,000 in 1980 to 25,000 in 1989; and another 3,000 fighters were in training camps. Similarly, while until 1981 the war was limited to Manica Province, in 1982 it spread to four provinces: Tete, Sofala, Inhambane and Gaza; in 1983, the war was expanded to three more provinces: Maputo, Zambézia, and Nampula; and in 1984, it had reached the provinces of Niassa and Cabo Delgado (Serapião 1989: 12–13).

By the middle of the 1980s, Mozambique was at a crossroads, as the war had spread throughout the

country, causing great devastation in rural areas, the suspension of development programmes and the disruption of the socio-economic infrastructure (Hanlon 1996: 15–16). As a result:

- one million people died
- 1.7 million people were refugees in neighbouring countries
- 3.2 million people were displaced inside Mozambique
- US\$ 20 billion were lost
- many schools, hospitals and health facilities were destroyed
- teachers, students, nurses and patients were killed or kidnapped
- transport infrastructure was disrupted
- buses and trains with passengers were burned alive
- more than 3,000 rural shops were closed or destroyed.

Because of this devastation of social and economic infrastructure, Mozambique became the poorest, most aid-dependent, and debt-ridden country in the world, thus ranking low in the human development index when compared with other Southern African countries (UNDP 1998; Devereux and Palmero 1999: 7). There was also a steady decline in GDP, production, real incomes, employment, a negative balance of payments and an average *per capita* income of less than US\$100 (EIU 1994–5, 1995).

Faced with severe shortages of food supplies and the need to restore the socio-economic life in rural areas, the Frelimo government agreed to join the World Bank and the International Monetary Fund (IMF) in 1984 and allowed the presence of international non-governmental organisations (NGOs) to distribute aid and food for the starving rural masses. By 1986, Mozambique agreed to pursue a structural adjustment programme (SAP) in return for aid.

The concessions made by Mozambique to Western countries had positive pay-offs. Aid increased from US\$ 360 million in 1985 to US\$ 1 billion in 1990. In the 1990–4 period, Mozambique was the largest aid recipient in sub-Saharan Africa, accounting for more than US\$ 1.1 billion per year: 200 million in debt relief; 100 million in food and emergency aid; and 800 million for other kinds of assistance (Hanlon 1996: 16–17). The consequence of the proliferation of

aid was that donors and international NGOs became powerful, often bypassing the Mozambican government in policy making and implementation.³

4 The sequencing of the reforms and its rationale

The economic and political reforms have been carefully sequenced in order to address the consequences of civil war and its internal causes and the problems of promoting development and the re-legitimisation of the Mozambican state, to reconcile and accommodate Frelimo's and Renamo's interests within the political system, to democratise the country, and to consolidate and sustain socio-political and economic development. The sequencing of reforms was predicated on the assumption that achieving sustainable development requires an appropriate interaction between economic and political reforms, starting with those perceived to be relatively easy to implement and then moving on to the most difficult ones. The strategy was to implement certain reforms on which other reforms could be built. Thus they first implemented 'zero-generation' reforms, made them work, and then implemented other reforms in an incremental way. So Mozambique first undertook an initial round of economic reforms, in preparation for the more difficult processes of peace negotiations and more challenging political and economic reforms. Achieving macroeconomic stability and restoring high economic growth could create the conditions for sustaining the costs of war (if the climate was not ripe for political negotiations), feeding internally displaced people due to violence, attracting FDI, and paving the way for the implementation of other economic and political reforms.

Economic reforms were followed by political reforms, starting with the approval of the 1990 constitution that enshrined liberal and multi-party democracy, then by peace negotiations that led to the 1992 Rome peace agreement, the demobilisation of Frelimo and Renamo soldiers, the repatriation of millions of refugees who were living in neighbouring countries, and the democratisation of the Mozambican society through multi-party elections and public sector reforms. Therefore, decentralisation and other public sector reforms have been implemented to fulfil democratic principles, to widen broad-based political networks, and to respond to the inability of the over-centralised, top-down system of governance to satisfy the needs of local

Table 2 **Origin of the growth of the Mozambican GDP, 1996–2001 (%)**

Economic sectors	1996	1997	1998	1999	2000	2001
Agriculture	30.5	30.2	27.2	25.4	20.2	18.8
Fishing	4.0	3.9	3.0	2.5	2.0	1.9
Industry	16.0	17.4	21.5	21.8	22.7	24.8
Mining	0.2	0.3	0.3	0.1	0.2	0.3
Manufacturing	8.7	9.6	11.0	11.0	11.3	10.7
Electricity and water	0.5	0.8	1.9	3.0	2.4	2.1
Construction	6.6	6.7	8.3	7.7	8.7	11.7
Services	49.5	48.5	48.3	50.3	55.1	54.4
Commerce	23.2	22.5	21.5	21.1	20.3	17.2
Repair services	0.6	0.6	0.8	0.8	0.9	0.7
Restaurants and hotels	0.8	1.2	1.1	1.2	1.4	1.1
Transport and communication	8.6	8.9	9.2	10.2	12.6	16.0
Financial services	3.7	3.2	2.6	2.1	4.0	4.3
Real estate rentals	2.7	2.6	2.4	2.2	1.9	4.6
Corporate services	1.3	1.1	1.3	0.8	0.8	0.7
Government services	4.4	4.5	5.1	6.8	7.1	7.1
Other services	4.1	3.7	4.3	5.1	6.0	5.6

Source IMF Mozambique Country Report No. 02/139 (July 2002).

communities across Mozambique. The leadership has shown a strong commitment to implementing reforms, and it has had relatively capable technocrats to spearhead the reform process, with the support and technical advice from donors.

5 The implementation of the structural adjustment programme and economic recovery

In response to the national economic collapse and evolving international context, in 1987 the Mozambican government launched a SAP in order to reverse the decline in production by creating better conditions for rural populations, ensuring a minimum level of consumption and income, reducing domestic financial imbalances, strengthening the balance of payments, and laying the foundation for economic growth (GOM 1987). The implementation of the SAP entailed two main stages: stabilisation and adjustment. The first stage aimed at the devaluation of the national currency and drastically cutting public expenditures. The second entailed the transformation

of economic structures through deregulation, privatisation, reduction of bureaucracies and subsidies, and the encouragement of realistic prices in order to stimulate high productivity.

Although the SAP accelerated inflation, hardships and deprivations for the majority of the population in the first years of its implementation, its benefits started to be felt in the following years, with substantial growth in the agricultural and industrial sectors. To mitigate the negative effects of the SAP, the government implemented 'zero-generation' reforms aimed at placating the majority of people who had suffered most from the civil war. The introduction of social safety net programmes, such as the Demobilization Fund for Frelimo's and Renamo's re-trenched soldiers, a Food and Subsidy Scheme, a Social Fund for Medicines, an Infant Food Supplement, a School Social Action Fund, a School Lunch Programme, a Civil Servant Wage Supplement and an Emergency Programme, were

Table 3 The sources of Mozambique's exports, 1997–2001 (US\$ millions)

Product groups	1997	1998	1999	2000	2001
Fish	84.4	66.4	74.8	100.7	102.2
Prawns	74.9	57.4	64.6	91.2	82.2
Agriculture (excluding Fishery)	102.9	88.8	87.0	83.4	66.3
Wood	10.1	5.2	9.2	14.6	12.6
Textiles and clothing	10.0	10.0	5.8	6.7	14.1
Rubber products	0.7	3.6	1.1	0.3	4.8
Footwear	0.7	0.8	0.9	0.6	0.3
Mineral and Fuel	3.8	1.1	7.8	11.0	6.2
Machinery	5.3	13.0	6.6	4.7	6.5
Transportation equipment	4.2	3.7	5.9	5.0	5.8
Miscellaneous	7.3	15.1	8.9	10.8	10.7
Sub-total	229.6	207.6	208.0	237.8	229.5
Aluminium	0.0	0.0	0.0	60.2	473.4
Sub-total (with Aluminium)	229.6	229.6	208.0	298.0	702.9
Electricity	0.0	37.0	62.8	67.0	70.0
Total	229.6	244.6	270.9	364.9	772.9

Source Nathan Associates (2002).

part of the 'zero-generation' reform package. The SAP proved relatively successful in halting the economic stagnation and in boosting rapid economic growth, despite the criticisms leveled by some scholars against the Bretton Woods institutions (Hanlon 1996).

Since the mid-1990s, Mozambique has had rapid growth. Much of it derived from mega-projects, such as the Mozambique aluminum project (Mozal), which have contributed to exports, although generating few jobs (Anderson 2001). Table 2 provides an overview of the origin of growth of GDP from 1996 to 2001.

As is clear from Table 2, Mozambique's steady economic growth has been driven by the construction sector whose share of GDP increased from 6.6 per cent in 1996 to 11.7 per cent in 2001. This increase is explained by benefits received from the investment phase of the Mozal mega-project. Growth in the agricultural sector has been

decelerating since 1996 from 30.5 per cent to 18.8 per cent in 2001, and it is the most crucial sector of the Mozambican economy. The manufacturing sector has had a constant average share of GDP of about 10 per cent since 1996; the services sector has provided a remarkable share of GDP, rising from 49.5 per cent in 1996 to 54.4 per cent in 2001. In the same period, the private sector investments accounted for 2–3 per cent of GDP (Biggs *et al.* 1999). The low contribution of the private sector to GDP is attributed to: (1) unfavourable conditions under which it operates: burdensome regulations imposed by public institutions which in turn lead to high costs of local production and its inability to compete with foreign products, and (2) problems faced by private sector firms in accessing external sources of credit or working capital.

It should be stressed, however, that Mozambique's economic growth has been supported by substantial FDI. The government has been pursuing a zealous strategy to attract large-scale FDI by privatising and

restructuring over 1,200 companies, pursuing financial sector reform, and promoting investments, sound macroeconomic management, exchange, trade, and price reforms, and public expenditure (World Bank 2000: 5) in order to boost economic development, improve its trade balance, raise manufacturing outputs, and increase government revenues. It is also expected that a pipeline mega-project approved by the government will provide more than US\$ 7 billion of investment (Nasir *et al.* 2003: 10–11).

Mozambique has been attracting considerable interest among foreign investors due to its abundant natural resources, advantageous location along important transportation corridors, political and macroeconomic stability, inexpensive labour, an increasingly liberal trade regime, and cautious exchange rate management. In recent years, Mozambique has also been an attractive destination of some regional investors such as South Africans and Mauritians. Taken together, these factors have been contributing to investors' confidence in Mozambique's capacity to sustain its 'turnaround' (World Bank 2000: 4–8). The main bilateral creditors of Mozambique are France, Russia, Italy, Brazil, Germany, Portugal and the UK. Mozambique's main multilateral creditors include the World Bank, the IMF and the African Development Bank. Its good economic performance can also be illustrated by its exports which have been rising since 1997 (Table 3).

Table 3 shows a substantial increase in exports in all product groups. However leaving aside aluminium and electricity, Mozambique's exports have remained unchanged in the past five years and this may have negative impacts for poverty reduction. As already mentioned, much of Mozambique's economic growth has been driven by mega-projects but these have limited employment effects. As Nasir *et al.* (2003: 13) point out, economic growth oriented to poverty reduction requires labour-intensive manufactured exports as well as the establishment of strong linkages between mega-projects and local producers. Another major concern is Mozambique's high dependence on foreign aid. Its rapid economic growth and the rise in exports owe much to large inflows of foreign aid. This may have negative long-term implications for the sustainability of economic growth and exports, as foreign aid is expected to decline in the next few years. To what extent can a country sustain its rapid economic growth, rising

exports and macroeconomic stability in the context of declining foreign aid and deficient national taxation?

6 Peace negotiations and democratisation of the Mozambican society

Following earlier negotiations between the Frelimo government and Renamo, a peace settlement was achieved on 4 October 1992 in Rome. The peace agreement was reached due to the recognition by the warring parties that the civil war could not be won by military means. Technically, the war could have continued for a long period because both Frelimo and Renamo had enough military equipment and means to proceed with the fighting and destruction of the country; and they were supported by foreign countries.⁴ However, politically and socially, the continuation of war was undermining the *legitimacy* of both contending parties because of the magnitude of devastation, killings and the suffering of innocent civilians across the country.

Legitimacy impinges directly on the exercise of political power and a government or a rebel movement that lacks it has serious problems with governability. What governments or rebel movements can get the people to do depends not only on the resources they command (military means) but also on their legitimacy and the quality of cooperation they get from their people or subordinates (Beetham 1993: 488). A government which is able to acquire legitimacy and get support from its citizens can achieve its objectives effectively. In the absence of legitimacy, the powerful can only secure compliance by resorting to coercion, terror, violence and force. However these means of compliance are difficult to sustain over time. Reliance on non-legitimate means of compliance can lead to disorder, instability and ineffectiveness, which are serious threats to the authority of the powerful and to economic performance. Legitimacy generates moral grounds for compliance which in turn leads subordinates to develop a particular quality of compliance which enhances the order, stability, and effectiveness of a system of power (Beetham 1991: 34). This is why the powerful seek legitimacy.

Aware of the need to end the war and secure legitimacy from the Mozambican people, both Frelimo and Renamo pursued peace negotiations. This helps us to understand Renamo's 16-point document distributed to the media in Nairobi and

Washington in August 1989, after its first congress held in Gorongosa between 5 and 9 June 1989. There were also internal pressures on both sides, especially from Catholic Bishops through their 1987 Pastoral Letter, to seek peace (Serapião 1989: 14, 21). At the regional level, Mozambique's neighbours – especially Tanzania, Malawi, Zambia and Zimbabwe – were undergoing democratic changes. In South Africa, apartheid laws were being dismantled and the country was adopting democratic changes that led to the 1994 multiracial elections.

At the international level, donors were concerned about the resolution of conflicts plaguing Africa. They could no longer tolerate the continuation of vicious circles of war and violence. The experience and coordination gained by bilateral and multilateral donors in the course of the implementation of liberalisation programmes were extended to discussions of political and security matters. This was a reflection of the international consensus-building on African economic and political issues (Alden 2001: xvi). Hence, they put pressure on contending parties to seek a peace settlement. Apart from these shifts, good governance and democratisation had emerged as their top priorities. Both Frelimo and Renamo embarked on peace negotiations because they knew that the civil war in Mozambique could only be continued at their own peril.

It is for these reasons that the civil war in Mozambique had no winner or loser. Neither Frelimo nor Renamo was militarily annihilated. The most important winner were the Mozambican people, including former soldiers of both Frelimo and Renamo, who had suffered greatly from the civil war. The solution was to introduce fundamental economic and political reforms to reconcile and accommodate Frelimo's and Renamo's interests within the Mozambican political system, and then to implement 'zero-generation' reforms aimed at placating the majority of the people who had suffered most from the civil war. This helps to explain the durable cessation of violent conflict in Mozambique.

Another contributing factor to the durable cessation of conflict was the astute mediation of members of the Catholic Community of Sant Egidio, the Italian government and the Catholic Archbishop of Beira, in a process that entailed the building of mutual confidence between the Frelimo government and

Renamo and the creation of democratic institutions (Hansma 1993; Hume 1994). The peace agreement was a detailed blueprint for truce, demobilisation of armed forces, de-mining and reopening of roads to facilitate the resettlement of a huge number of refugees and other displaced people, humanitarian issues and democratic elections. The implementation of the agreement led to the first-ever general and presidential elections in 1994, and the subsequent general and presidential elections in 1999 and in 2004. All of this explains why Mozambique's turnaround has been succeeding and is sustainable.

7 Public sector reforms

7.1 Decentralisation: devolution and deconcentration

Devolution

In 1997, the Mozambican parliament passed Law 2/97, on municipalities, opening the way to the devolution of political and economic powers onto local institutions. As a result, on 30 June 1998 municipal assemblies, local councils, mayors, and local parliamentarians were elected. These bodies were vested with the power of making laws, planning and budgeting, acquiring and administering resources and taxing. In the exercise of their powers, municipal institutions are encouraged to coordinate their activities with traditional authorities in order to satisfy specific needs of local communities.

By devolving these functions and responsibilities, the central government aims to enable them to provide public services through local accountability and to empower people hitherto marginalised by increasing their participation in local political and socio-economic development. Local governments are expected to produce equitable services and goods through better use of local resources and knowledge. Thus far, however, progress has been hampered by a lack of clarity in the legal framework and a severe shortage of resources at the municipal level – although municipalities produce almost two-thirds of Mozambique's GDP, they receive only one per cent of the budget.

The devolution of political and economic powers is to be pursued gradually, and it is expected that the process will last as long as 100 years.

Deconcentration

In parallel with devolution, the Mozambican parliament passed Law 8/2003 on local state bodies:

provinces, districts, administrative posts and localities. Through this law, the central state will deconcentrate to those levels certain functions and responsibilities in the areas of service provision, investments, planning and budgeting through upward accountability. The law reaffirms the continuation of a centralist principle of public administration and has thus far done little to change the 'very top-down, silo-nature of the system and extreme lack of resources and horizontal planning that is still the current reality'.⁵ Nevertheless, it has three important innovations which promise greater deconcentration and give some slight recognition to some principles of democratic governance such as transparency, responsiveness and participation (Kulipossa 2004b). These features are:

1. A multisectoral and integrated approach to district administration, which weakens the principle of double subordination. District administrators (DAs) will be assisted by permanent secretaries and district service directors and together will make up district governments (DGs). The representatives of line ministries at the district level (district directors of agriculture, health, education and others) will have a technical/advisory role to DGs.
2. District consultative councils, of which DGs are part, will have an advisory/consultative role to DGs. This body will not be elected, and DAs and DGs will not be accountable to it. However it will have a certain degree of 'representativeness', since it will include traditional authorities, community and religious leaders and economic, social and professional associations. This is clear in Decree 15/2000 on interactions between traditional authorities (or community leaders) and local state organs. By-law 107-A/2000 regulates the functions, competencies, and benefits of traditional authorities. Administrative posts will have their respective consultative councils.
3. Districts will be budgetary units and their own funds, consisting of locally collected revenues and transfers from the central government; and they will be obliged to formulate district development plans. However their discretionary powers concerning the financial regime, budget execution, downward accountability and community participation still remain limited.

Both devolution and deconcentration of political and economic powers have been implemented to

address the problems of overcentralisation and the monopolisation of political and economic powers.

7.2 Broader public sector reforms: 2001–11

In 2001, the government of Mozambique passed its Global Strategy for the Public Sector Reform (PSR) aimed at enabling the public sector to promote socio-economic development and reduce absolute poverty. The rationalisation and decentralisation of service delivery is one of the key components of the reform, and it entails the restructuring of the public sector based on functional analyses and restructuring plans for all ministries. The restructuring will lead to the transformation of the functions, structures and human resources of the central government in connection with policy formulation and monitoring. Service delivery will be transferred from central institutions to local level institutions, including the private sector and civil society organisations (CSOs). The PSR focuses on six key areas:

- improving service delivery through decentralisation and institutional restructuring
- strengthening the policy formulation and monitoring process
- enhancing professionalism in the public sector
- improving financial management and accountability
- promoting good governance and combating corruption, and
- management of the reform process.

The implementation of these public sector reforms is reflected in a set of detailed annual work plans for different reform areas. Thus, the PSR is seen as a key instrument for operationalising the government's objectives of poverty reduction. Although progress has been uneven across ministries and specific sectors, preliminary evaluations of the implementation of the PSR are cautiously positive (Technical Review Team 2004: 7–8).

8 Poverty reduction strategies, 1995–2025

Although the requirement for the Highly Indebted Poor Countries (HIPC) to have PRSPs was introduced in late 1999 by the World Bank and the IMF (IDS 2000), Mozambique has had its own programme aimed at promoting socio-economic development and fighting against absolute poverty before the end of the civil war. The two decades of civil strife and economic stagnation had prompted the government to set up these development strategies as key priorities.

As a result of the first national household survey on living conditions in Mozambique, carried out between 1995 and 1996 (MPF *et al.* 1998), the government formulated the PRSP, which had three main objectives: (1) improvement of rural livelihoods; (2) investment in human capital and (3) building a disaster safety net (MPF 1995: 1). The second anti-poverty document was set out in the 1999 *Poverty Reduction Action Plan*, aimed at rebuilding physical infrastructure (roads, schools and hospitals), which address the basic needs of communities. These two policy documents were followed by three other anti-poverty-related documents which guided the government in the struggle against absolute poverty: *A View into the Future* (1998), *Policy Framework Paper (1999–2000)* and *Second Five-Year Plan (2000–2004)* (Devereux and Palmero 1999: 13–17).

Along with these initiatives, the government approved in 1997 a new land law, which entailed extensive popular debate and participation. In 2001, the government published its most comprehensive anti-poverty policy strategy: the *Action Plan for the Reduction of Absolute Poverty (2001–2005)* (PARPA) (GOM 2001), implemented through the annual economic and social plan and the state budget. In 2003, the government published *Agenda 2025* for fostering socio-economic development. In these policy documents, the government maps out its strategies for poverty reduction and socio-economic development in the short, medium, and long term. Mozambique's PRSP focuses on enhanced expenditure programmes (education, health, road construction/rehabilitation), institutional reforms to improve governance (decentralisation, public sector reforms and civil service reform) and structural reforms (efficient financial management, tax reform and land reform).

The government has been working with the World Bank and the IMF in order to set out the policy framework within which resources freed up by debt relief in the context of the HIPC initiative are invested in key development sectors: education, health, infrastructure, agriculture and rural development, governance, security and judicial system, public sector reforms, etc. These have been seen as the most pro-poor priority areas for poverty reduction.

Preliminary assessments of the effectiveness of government anti-poverty strategies are cautiously

positive. Achievements of physical and financial targets of PARPA and other programmed actions are said to be moving in the right direction, especially for the education, health, good governance and legal/justice sectors. According to the IMF (2003: 45) these sectors 'are performing well'.

9 The interaction between the Mozambican government and donors

The devastation wrought by the civil war could not have been countered if it were not for the active support of donors. In fact, the Rome peace agreement was a result of political will of the government and Renamo and of the readiness of donors to support its implementation and their commitment to large-scale financial support for elections and reconstruction. The successful implementation of the peace agreement was a result of a positive interaction between the government and donors. Bilateral and multilateral donors, through the United Nations Operation in Mozambique (ONUMOZ), played a pivotal role in ensuring the success of pacification, democratisation, national reconstruction and the introduction of other economic and political reforms.

Whereas in the 1990s government–donor interactions were characterised by competition, duplication, stringent conditions, bypassing government institutions and creating parallel structures, at present their relationships are now based on sector-wide approaches (SWAps), partnership, ownership, accountability and transparency. Under the new aid principles (IDS 1998, 2001) donors are involved in Mozambique's political and economic processes through dialogue and participatory monitoring and evaluation on key policy issues and in the design and implementation of development programmes, while leaving leadership and ownership matters in the hands of Mozambican authorities.

Under SWAps, donor resources flow through pooled accounts and are managed through government procedures and systems. This enables the government to incorporate all funding for each sector into the national budget, and gives it greater freedom to design and implement programmes and allocate resources to better achieve intended results. SWAps also enable the Mozambican government to reduce transaction costs that the engagement with

multiple donors entail by setting up coordinated appraisal, two-way reporting and partnership agreements (World Bank 2000: 9). Medium-term expenditure frameworks, results-oriented budgeting and country financial accountability assessments are other management tools that are also used in SWAPs. All of this enhances resource planning, expenditure control and performance management systems that are leading to current financial management reforms.

10 Conclusions

Peacetime has made it possible for the Mozambican government to push forward with broad economic and public sector reforms and public revenue and expenditure management reforms aimed at reducing absolute poverty, improving service delivery, enhancing the professionalism of the public sector, improving accountability and transparency in the management of public affairs, promoting good governance and community participation and combating corruption. These changes are part of the package of reforms aimed at achieving the Millennium Development Goals to which Mozambique is committed.

The crucial factors contributing to and sustaining Mozambique's 'turnaround' should now be apparent. They include the relatively successful liberalisation of the economy and its subsequent higher rates of economic growth, the government's capacity to attract foreign investments and Mozambique's eligibility for the HIPC initiative. But there is more to it than economic change. The 1992 Rome peace agreement, the approval of the 1990 constitution, the successful repatriation of millions of refugees who were living in neighbouring countries and their resettlement in Mozambique, the broad government reconstruction programme, the holding of three general and presidential elections, the realisation of the 1998 and 2003 local elections all matter. So do the productive engagement between the government and aid donors, and the approval of the 2004 consensual constitution by the multi-party parliament.

While much progress has been achieved in the pursuit of reforms, Mozambique's long-term economic growth and PSR sustainability are, however, threatened by the low level of education and skills of the population. While Mozambique has prospects for overcoming these obstacles, its

potential can only be fully realised if investments continue to flow towards human capital training as stimuli to socio-economic development.

Despite the impressive progress made in liberalising the economy and foreign trade, and privatising state-owned enterprises, Mozambique still bears the scars of a post-conflict country, where the initial thrust of the reconstruction activities was focused on economic reforms to ensure macroeconomic stability and higher rates of economic growth in preparation for more tough processes of peace negotiations, pacification, democratisation and other political and economic reforms.

Mozambique's current and future challenges relate to the mounting allegations of increasing corruption in government institutions, its heavy dependence on foreign aid, the domination of political and economic powers by elites and the corresponding weakness and fragmentation of broad-based political networks. It also remains vulnerable to external interventions, the private manipulation of public power (cronyism, corruption, rent-seeking and an administrative morass), resistance to public sector reforms and severe inequalities in income.

Taken together, these problems can be seen as formidable obstacles to Mozambique's long-term sustained 'turnaround'. Clearly these problems should merit a radical focus to ensure not only the legitimisation of the state power but also for the sake of poverty reduction and better development programmes executed by competent, efficient, transparent and accountable state institutions.⁶ Only a state with these features can become a developmental democratic state, defined as one which '... can simultaneously carry forward a development project founded on growth and equality, and which rests on democratic political foundations' (Robinson and White 1998: 5).

The basis for the emergence of such a state lies in the definition of a social contract, by citizens and leaders concerning the objectives and values that Mozambican society wishes to pursue through the state and the structures deemed appropriate in the light of such objectives and values. The experience gained in the implementation of the Decentralised District Planning and Financing Project in Nampula Province and of the Direct Support to Schools Programme which evolved nationwide, as well as

the experience of municipalisation since 1998 in 33 cities and towns – notwithstanding their recognised weaknesses – suggest that there is scope in Mozambique for the design of democratic institutions which can shape both locally led democratic governance and broad-based, sustainable

development. The institutional innovations that are taking place in those settings are making local institutions more legitimate, participatory, accountable and sensitive to problems of poverty, social welfare and equity in local settings.

Notes

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1. Frelimo is a political front that led to Mozambique's independence and since 1975 has been the ruling political party. Frelimo was, ideologically, a Marxist–Leninist party until 1989 and from 1989 onwards it has been a social-democracy party in its political orientation. Renamo was until 1992 a rebel movement fighting for the institutionalisation of 'democracy' and 'multi-party system' in Mozambique. Presently, Renamo has been wrestling with the task of transforming itself from rebel movement into a civil political party (Manning 1998, 2002).
 2. See especially Hanlon (1984, 1991); Gersony (1988); Geffray (1990); Vines (1991); Chingono (1996); Newitt (1995); Hall and Young (1997); Cabrita (2001).
 3. There are in Mozambique many bilateral and multilateral donors. They have varying objectives and interests, ranging from the overtly ideological to the purely

- technical ones. Their contribution to turnaround has been mixed and their support to government policies takes the form of direct financing, general budget support, capacity building of staff and institutions, technical assistance and policy advice. For instance, after the peace agreement, donors committed some resources to transform Renamo into a civil political party.
4. Frelimo was supported by Tanzania, independent Zimbabwe, the former Soviet Union, Cuba and other countries of the Eastern bloc; Renamo was supported first by Rhodesia and then by apartheid South Africa, Malawi, Kenya and some Western countries.
 5. Personal communication from informed source, 2 June 2005.
 6. There is a close relationship between state legitimacy and its performance in fostering sustainable economic development. At least the evidence from Vilankulo municipality suggests this. The political and economic performance of the municipal government is related to the degree of legitimacy, loyalty and trust it commands from the local population, which in turn conditions political and economic policy choices and strategies which councillors adopt (Kulipossa 2003, 2004a).

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