

Istituto Affari Internazionali (IAI)

Report Part Title: A Case Study of Mozambique

Report Title: Promoting Stability and Development in Africa:

Report Subtitle: How to Foster Cooperation between Public and Private Sectors

Istituto Affari Internazionali (IAI) (2015)

Stable URL: <http://www.jstor.com/stable/resrep09861.8>

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A Case Study of Mozambique

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Public-private¹ relations in the fields of socio-economic development, democratic governance and peace and security are complex in Mozambique because they are deeply rooted in the history of the country. Several factors make Mozambique a case study worthy of investigation. They are: (1) the fact that Mozambique has been growing continuously for twenty years, and in the last ten years registering an average growth of 7.5 percent, (2) the fact that Mozambique has maintained peace for over twenty years, despite some localised pockets of instability, and (3) the fact that it is a country with great potential in terms of strategic energy resources such as coal, natural gas and oil. In addition, (4) Mozambique is a country that is increasingly attracting foreign direct investments (FDI) and (5) where public-private relationships are steadily consolidating.

This study is divided into four sections. The first section presents a historical summary of Mozambique's ideological trajectory from socialism to capitalism. It is followed by a description of the evolution of public-private relations since 1975, divided into three periods: the period of the predominance of the public sector over the private sector; the tran-

¹ The public sector is composed of all entities controlled or owned by the government. It includes non-market-oriented institutions that offer public services (Ministries, Municipalities) as well as market-oriented entities such as public companies, municipal companies and other economic units where the government is the owner or major shareholder. Private sector refers to market-oriented entities that are not owned or controlled by the government (owned by individuals or group of people), such as companies, businesses or other activities that produce economic or financial profits.

sition period which marked the beginning of coordination between public and private sectors; and the period of consolidation of public-private coordination. The third section analyses the relationship between private sector and democratic governance using the indicators of good governance as presented by Kaufmann et al. (2010:4). The fourth section discusses the relationship between private sector and security. The study summarises its findings in the concluding section.

2.1 HISTORICAL OVERVIEW: FROM SOCIALISM TO CAPITALISM

Mozambique became independent from the Portuguese colonial regime on 25 June 1975. At that time, the ruling government led by the Liberation Front of Mozambique (*Frente de Libertação de Moçambique*, FRELIMO) adopted socialism as a governance system. The socialist approach became consolidated in 1977, when FRELIMO met in the third Congress. The choice of socialism as the State's ideology was motivated by several factors linked to the international system, the southern Africa region and domestic considerations.

When Mozambique became independent, the world was dominated by the Cold War which saw the West led by the United States (US) and the East led by the Union of Soviet Socialist Republics (USSR) intensely opposed. During the colonial period Portugal, as a member of the North Atlantic Treaty Organisation (NATO), had prevented FRELIMO from getting substantial support from the West during the liberation struggle (1964-74). Only a few countries such as the Nordic States and especially Sweden did not align with this policy. In contrast socialists and socialist-oriented countries – especially the USSR, China and independent African countries, notably Tanzania – effectively supported the struggle for liberation of Mozambique.

Socialist support to the countries that were fighting for independence from colonial powers was crucial both in Africa and in Asia. It was a key factor in the independence of many Sub-Saharan Africa countries in the 1960s. As a result, a significant number of them adopted socialism as State ideology. Several African socialist countries supported the libera-

tion of other African peoples who remained under colonial rule; for instance, Tanzania, Zambia and Algeria were decisive in supporting the struggle for Mozambique's independence. Therefore, Cold War dynamics in the international system created the conditions for Mozambique's decision to adopt socialism as the dominant ideology of the newly independent State.

Angola and Mozambique became independent in a difficult regional political context. Malawi was governed by President Hastings Kamuzu Banda, who undermined the political and military struggle for independence in Zimbabwe and Mozambique. Zimbabwe was under the rule of Ian Douglas Smith and South Africa was under the Apartheid regime, which also ruled in Namibia. Both Malawian and South African regimes had good relations with the West while many liberation movements such as the Zimbabwe African National Union-Patriotic Front (ZANU-PF), South West Africa People's Organisation (SWAPO), the African National Congress (ANC) and the People's Movement for the Liberation of Angola (*Movimento Popular de Libertação de Angola*, MPLA) were socialist. In positioning itself regionally, FRELIMO made a strategic choice in favour of socialism in order to cooperate with other regional liberation movements.²

At the domestic level, during the armed struggle (1964-74) FRELIMO was able to test the socialist model in the liberated areas. This gave confidence to its leaders for the implementation of socialism at the national level in the post-independence People's Republic of Mozambique. This choice was also determined by a willingness to mark a clear cut with the capitalist/imperialist negative colonial experience. From very early on, the destabilisation war (1976-92) carried out by the Mozambique National Resistance (*Resistência Nacional de Moçambique*, RENAMO) with support from Ian Douglas Smith and the apartheid regime of South Africa (Mosca 2005:146) created challenges to the FRELIMO socialist government. These were worsened by the waning of the USSR's support from the early 1980s. The need to obtain financial assistance prompted

² FRELIMO became a socialist party in 1977 as result of a Third Congress decision, despite the fact that Mozambique had been socialist since its independence in 1975.

FRELIMO to rethink Mozambique's socialist system and to open the country to a more capitalist-oriented economy (Velooso 2006:196).

When in 1983 the then governor of the Mozambique Central Bank, Parakash Ratilal, announced that Mozambique would join the World Bank, the USSR and East Germany treated this choice as a betrayal and interdicted Mozambique's accession to the Council for Mutual Economic Assistance (CMEA), an economic organisation led by the USSR (Velooso 2006:196). The government of Mozambique had to normalise its relations with the West in order to get assistance, and took a number of diplomatic initiatives such as (1) signing the Nkomati Accord with the Republic of South Africa in 1984, (2) entering the Lomé Convention III in 1984 and (3) conducting official visits to the West, such as President Samora Machel's visit to the US in September 1985.

As a result of closer ties with the West, Mozambique was able to start negotiations with the Bretton Woods institutions in 1984. These led to the approval, in 1987, of the Economic Rehabilitation Programme and to an ideological shift of the Mozambican State. The adoption of a new constitution in 1990 transformed the People's Republic of Mozambique into the Republic of Mozambique and sealed the transition from socialism to capitalism. Since then, Mozambique has pursued democracy and liberal economy. In 2004 the constitution was revised, without shifts in the ideological orientation.

2.2 PUBLIC-PRIVATE SECTOR RELATIONS

The transformation of public-private relations in the Mozambican economy evolved over three different periods. Between 1975 and 1990 the private sector was neglected by the State, which did not provide financial assistance or develop economic policies in its favour. In contrast, companies and production units managed by the State, which were the majority, received public financial support with the only exception of small farmers, who continued to produce until 1981 without direct State support. As the war of destabilisation intensified, many of them left their farm, facing a time of famine in the subsequent years.

In the second period, from 1990 to 2000, the State moved from a cen-

trally planned to a capitalist economy. This period was marked by the acceleration of the privatisation process and a greater awareness of the private sector, which in 1995 started to organise annual conferences that later became institutionalised public-private dialogue mechanisms. As the public sector became more open, the private sector slowly became a partner in the development of the country.

From the year 2000, coordination between the public and private economic actors was consolidated as platforms of dialogue were established in conjunction with clear economic policies for strengthening private enterprises (especially small and medium enterprises) and measures for the financing of economic activities in both rural and urban areas. In this period, FDI also grew, further strengthening the role of the private sector in national economic development. The holdings of the State in “mega-projects”³ also contributed to reinforce the interaction between the public and the private sector. International partners play a key role in the consolidation of the private sector through support to the State budget, concessional loans, and investments in the mining sector. It is in this context of increasing coordination that the private sector is asking that the focal-point of the dialogue should be the Prime Minister or the President of the Republic.

2.2.1 Prevalence of Public Sector over Private Sector (1975-1990)

Relations between the public and private sector from 1975 to 1990 were tense and complex with moments of rupture and continuity. Above all, it was a period of dominance of the public sector over the private sector. This period was characterised by nationalisation processes, the departure of Portuguese citizens (who were running private business and the State apparatus before Mozambique’s independence) and weak support for the private sector.

In relation to nationalisation, Mosca (2005:148) states that

³ Public-private capital-intensive companies.

on 24 July 1974 Samora Machel announced the nationalization of education and health, the land, the funeral companies and law firms. In these areas the private activities were prohibited. The second phase of nationalization took place on 3 February 1976 when he announced the nationalization of profit buildings and prohibited the rent of private houses.

In practice nationalisation meant the empowerment of the public sector as a strategy aimed at “destroying” the colonial State apparatus and building up social equality. In rural areas, the government established “cooperatives”⁴ and communal villages as forms of production and organised life for the rural population against private property and rural dispersion.

The nationalisations affected mainly the urban economy and contributed to the departure of Portuguese entrepreneurs largely due to fear of governmental reprisals. According to Abrahamsson and Nilsson, almost 185,000 Portuguese, out of 200,000, returned to Portugal (Abrahamsson and Nilson 1994:37). This meant that both entrepreneurs and skilled labour that ensured the functioning of the colonial economy were no longer operating in Mozambique and many companies were abandoned.

Desertion, uneconomical decisions and sabotage of companies by the departing Portuguese business community forced the State to intervene in the industrial, commercial and agricultural sectors, as Mosca (2005:171) reports:

Considering the hundreds of abandoned companies, scattered in the territory, of various sizes and in all economic sectors, ministries, especially of agriculture and of industry and commerce created the Production Support Offices. [...] The vast majority of intervened companies were integrated in provincial Production Support Offices, except in some monopolistic sectors consisting of large companies, whose option was to create state owned enterprises (SOEs).

⁴ A cooperative is an association of persons united to meet their economic, social and cultural needs and aspirations through a jointly owned property.

Major State companies in the colonial period, such as the Exploration Division of Air Transport and Railways, were transferred directly to the Mozambican State whilst large foreign companies such as British Petroleum, *Banco Standard Totta de Moçambique*, *Grupo Entrepoto*, *João Ferreira dos Santos*, and *Grupo Madal* among others were not nationalised.

The existence of a large number of economic entities managed by the State may have contributed to weak private sector support. While SOEs had financing facilities from the government, the private sector benefited indirectly from the market system, because the SOEs were buying products from the private sector. Such was the case for the small farmers who used to sell their products to Agricom.⁵ But the great challenge of the private sector was that the prices were not market-based but were set by the Ministry of Industry and Trade.

In 1980s the Mozambican government recognised that it could no longer manage small business. As stated by Samora Machel:

The State cannot continue to pay wages to thousands of employees of the stores of the people, many of whom produce nothing, the current stores of the people should be transformed or delivered to consumer cooperatives, and to private traders. Some should be closed if there is no owner to rent them out, the State cannot manage business. Let's make a plan to transform people's shops. Private business has to play an important role in our country; it was clearly decided in the third congress of the FRELIMO Party. [...] The State should concern itself with the direction of our economy and with the completion of major projects of development.⁶

The decision to license stores to private individuals was a measure designed to address the malfunctioning of small commercial units. Therefore, the private sector was delegated the task of managing small busi-

⁵ State-owned company for runoff and agricultural marketing.

⁶ Samora Machel speech on "*Ofensiva política e organizacional*" delivered at Independence Square (Maputo) on 18 March 1980 (RM Audio).

nesses in recognition of its role in promoting economic development, even if only small traders were concerned at first.

During the period from 1975 to 1990, the Mozambican government designed programmes and economic plans to respond to the country's economic challenges. Among these were the Emergency Programme of 1976, whose main objective was to present to the international community the financial need to tackle the economic crisis originated by floods, and the closure of the border with Southern Rhodesia. Implementation of the Central State Plan of 1978 was controlled by the State and State Owned Enterprises. These programmes and plans prioritised the collective production sectors, neglecting the private sector. Results were positive, as evidenced by the fact that during the period between 1975 and 1981 production levels were maintained, and even registered an 83 per cent increase from 1977 to 1981 (Abrahamsson and Nilson 1994:34).

A Prospective Indicative Plan (1980-90) with a set of economic and social goals to build a prosperous socialist State was also adopted. However, as the destabilisation war intensified, the economy began to suffer. In 1983 the government drafted the Economic Action Programme to counteract the downward economic trend, with no real success. A few years later (January 1987), the government introduced the Economic Rehabilitation Programme (ERP) in an attempt to improve the critical situation, and the same year it came to an agreement with the International Monetary Fund (IMF) and the World Bank to introduce structural adjustments. In the ERP the small farmers were prioritised.

During the 1980s, privatisation or private sector expansion was slow and insignificant (Mosca 2005:177), and concerned mainly the small and medium enterprises in transport, trade, hostelry, agriculture and industry. The ERP marked the initial phase of the establishment of the market economy. In 1989, the Mozambican government introduced the Economic and Social Rehabilitation Programme (ESRP), a comprehensive program that took into account the social dimensions of economic rehabilitation.⁷

⁷ The social dimension of this programme aimed to reduce absolute poverty, paying more attention to social sectors such as education, health and food for the population.

Subsequent economic plans and programmes largely failed due to the war of destabilisation that destroyed economic and social infrastructures and caused the massive displacement of people. Some moved to urban centres where they swelled the ranks of the unemployed, and others became refugees in neighbouring countries. In fact the war of destabilisation collapsed the rural economy and prevented any prospects of development of the private sector.

2.2.2 Transition Period (1990-2000)

The 1990 constitution is an essential milestone of the political and economic transition of Mozambique. Politically, it introduced the multi-party system and liberal democracy instead of the single party and socialist democracy. Economically, it formalised the changes that had been in progress since 1984, moving from a centrally planned economy to a market economy.

The differences between the 1975 and 1990 constitutions regarding the State's role in the economy seems clear. While Article 9 of the 1975 Constitution described the State as the promoter of economic planning, Article 41 of the 1990 Constitution represents the State as regulator and promoter of economic growth and social development. As a consequence, the 1990 Constitution opened up the space for the private sector to play a greater role in the economic development of the country.

Adoption of the 1990 Constitution and pressure from the Bretton Woods institutions led to the approval of Law No. 15 of 3 August 1991. This law established the general principles that would guide the privatisation process and transfer of enterprises, buildings and properties owned by the State to the private sector (Samussone 2014:74). Looking at the economic transformations of Mozambique in the 1990s, Castel-Branco et al. (2001) argue that privatisation together with liberalisation and deregulation constituted the core of Mozambique's economic transition. However, the transition from a socialist to a capitalist economic model was complex and sometimes opaque.

The process of privatisation gained momentum with the end of the war of destabilisation and the entry into power of a democratically elected government in 1994. The effects of privatisation were different

in each case. For example, while the Company for Construction and Maintenance of Roads and Bridges (ECMP) ended up bankrupt, laying off its workers, other companies like CETA⁸ adapted to market requirements and remained viable. Despite these differences, since 1993 the Mozambican economy has grown at about 8 percent per year, with a brief decline in 2000 due to widespread floods (APRM 2010:70).

Public-private consultations began to be organised with the first conference of the private sector held in 1995, which later became the Annual Conference of the Private Sector, together with the Private Sector Working Groups (PSWG) which is the main consultation mechanism.

The transition period was also marked by efforts to attract foreign direct investments. The investment law (Law No. 3 of 24 June 1993) allowed the creation in 1998 of Mozal, an aluminium smelting plant located in Maputo province (Wache 2008:3). Mozal represented the promising start of the FDI efforts that in subsequent years were to become established in Mozambique. The company's shareholders are BHP Billiton with 47 percent, Mitsubishi Corporation with 25 percent and International Development Corporation with 24 percent and the Government of the Republic of Mozambique with 4 percent (Wache 2008:3). However, with the appearance of multinational corporations it is increasingly difficult to distinguish between the public and private sectors since the government becomes a shareholder of companies that would be considered private by nature.

2.2.3 Consolidation of Private Sector (2000-2014)

The year 2000 was historically significant: first, because of the establishment of Mozal which began to produce and export aluminium, an operation that galvanised the small and medium companies contracted to provide services, especially transport, cleaning and feeding; and second, because the country was ravaged by floods that destroyed the infrastructure, paralysed economic activities and profoundly affected the

⁸ CETA is a construction and maintenance company that operates in the following engineering sectors: roads, structures (bridges, ports, hospitals, schools, housing, buildings, warehouses), geotechnical, environmental, hydraulic and railways.

country's economy. However, in subsequent years the economy recovered its course, registering continuous growth.

Mozambique's economic growth is the result of a peaceful environment associated with (1) the adoption of economic policies, (2) greater public-private coordination, (3) foreign direct investments and (4) international cooperation.

With regard to economic policy the focus is on the Action Plans for the Reduction of Absolute Poverty (*Planos de Acção para a Redução da Pobreza Absoluta*, PARPA) and the establishment of "one-stop service windows" (*Balcões de Atendimento Únicos*). Each plan was applied for five years; thus, PARPA I lasted from 2001 to 2005, PARPA II lasted from 2006 to 2009 and the Poverty Reduction Action Plan (*Plano de Acção para a Redução da Pobreza*, PARP) lasted from 2011 to 2014. PARPA I recognised the central role the private sector plays in the Mozambican economy by stating:

The present strategy for reducing poverty and fostering economic growth is based on the assumption that private initiative by citizens, families, firms and other institutions, is the engine of development, with the State being responsib[le] for the provision of services and infrastructure that are essential for the realisation of these initiatives (Mozambique 2001:81).

PARPA II reaffirmed the importance of the private sector, arguing that "The benefits to the economy will be felt in terms of a reduction in bureaucracy and an increase in quality, strategic investment in infrastructures, as well as incentives for growth of the private sector" (Mozambique 2006:4). In its turn the PARP states that

The Strategy for Improving the Business Climate 2008-2012, the Strategy for Development of Small and Medium-Sized Enterprises (SMEs) and the Employment and Vocational Training Strategy constitute the basis for promoting employment by strengthening the private sector (Mozambique 2011:12).

Additionally, a District Development Fund – also known as “seven million”⁹ – was set up in 2005, and in 2010 the Government added the Strategic Programme for Urban Poverty Reduction Fund. These funds have served to leverage private finance initiatives in both rural and urban areas. Yet challenges remain as to how best to structure the funds into sources capable of generating employment, especially for youth.

Adoption of the “one-stop service windows” through Decree No. 14 of 30 May 2007 provided for the improvement of services through simplification, flexibility and speed of administrative procedures in cases of citizens’ claims. The main objective of the service is to efficiently meet the needs of the private sector, simplifying the procedures in order to allow the establishment and consolidation of private companies in Mozambique.

Since 1995 the Confederation of Economic Associations (CTAs) has held fourteen annual conferences of the private sector. These conferences, alongside the Expanded Board of Consultancy, are authentic channels of dialogue between the public and private sectors. The Private Sector Working Group, which also includes international partners, is also part of these channels.

The Minister of Industry and Commerce Armando Inroga indicated at the XIII edition of Mozambique’s annual private sector conference held on the 8th March 2013 that the government had complied with 80 percent of its targets for business environment reform (CTA and ACIS 2013:5). His comments coincided with the conclusion of the first phase of the Business Environment Improvement Strategy (BEIS) and preparation to implement the second phase as well as the launch of the draft of the National Development Strategy. The overall objective of the BEIS is to

reduce absolute poverty levels, through the promotion of rapid, sustainable and inclusive economic growth, focusing on the creation of an environment favourable to investment and to the devel-

⁹ This is money given annually to Districts in order to finance local entrepreneurs who have economic initiatives but no funds to implement them. The main objective is to reduce poverty.

opment of national entrepreneurship, and of the realization of actions in education, health and rural development (CTA and ACIS 2013:23).

This addresses the main concerns of both public and private sectors.

The implementation of the first phase of the BEIS produced on one hand results such as better business environment,¹⁰ increased rate of investments, and greater access to education and health. On other hand, lack of funds prevented the country from improving the quality of services (education, transport, health). It is in this context that the second phase is being implemented.

Foreign direct investments has increasingly helped to boost the private sector and the economy in general. Indeed, since 2000 the economic growth of Mozambique has led to the establishment of “mega-projects” including the Mozal aluminium factory, the resumption of operations in Pande and Temane by Sasol,¹¹ Moatize coal exploration by Vale Moçambique and Rio Tinto, the exploration of Moma heavy sands by Kenmar, the discovery of large natural gas reserves by ENI and Anadarko in the Rovuma Basin, and more recently, the discovery of oil in the Inhassoro district.

In addition to boosting the private sector, the financial dimension has gained importance thanks to the capital gains from the sale of shares of some companies engaged in the search for and exploitation of hydrocarbons. For example, ENI paid 530 million dollars in 2013 from the sale of its shares of Area 4 in Rovuma Basin to the Chinese company CNODC Dutch Cooperatief UA (SAPO 2013). However, these capital gains have not yet benefited the small and medium companies and that is why ongoing debates advocate more State assistance to this category of companies.

International cooperation also contributes to enhancing coordination between the public and private sectors. For example Western partners

¹⁰ The rankings of Doing Business reports show that the business environment is improving; for example Mozambique was ranked as 146 in 2013, as 142 in 2014 and now as 127 in 2015.

¹¹ Sasol is a South African integrated energy and chemicals company that is exploiting natural gas in Panda and Temane, in the southern region of Mozambique.

from the G19 group, also known as the Programme Aid Partners, are supporting the State budget to contribute to the country's economic growth and consolidation of the private sector. Some of the largest donors are the World Bank, the United States, the European Commission, the United Kingdom and the Netherlands.

However, there is a perception that some funds planned to support development programmes are not delivered efficiently. This is the case for the 10th European Development Fund (EDF) implemented by the EU over five years (2008-13) and the first phase of the Millennium Challenge Account (MCA) from the US, also implemented over five years (2008-13). Mozambique was not able to absorb the EDF during the scheduled time and was not eligible for the second phase of the MCA. In both cases, failure to access the funds had similar causes: (1) complexity of criteria, (2) inability of contracted companies to implement the projects financed by these funds and (3) lack of clear information about the funds.

In any case Mozambique's dependence on foreign aid is reducing significantly. For example, in 2005 the budget dependence was about 48.1 percent but this figure had decreased to 27.9 percent by 2013. Hopefully, Mozambique will become self-sufficient in budgetary terms over the medium term, and the traditional sectors of agriculture and services with help from the booming mining industry may be able to contribute to this end.

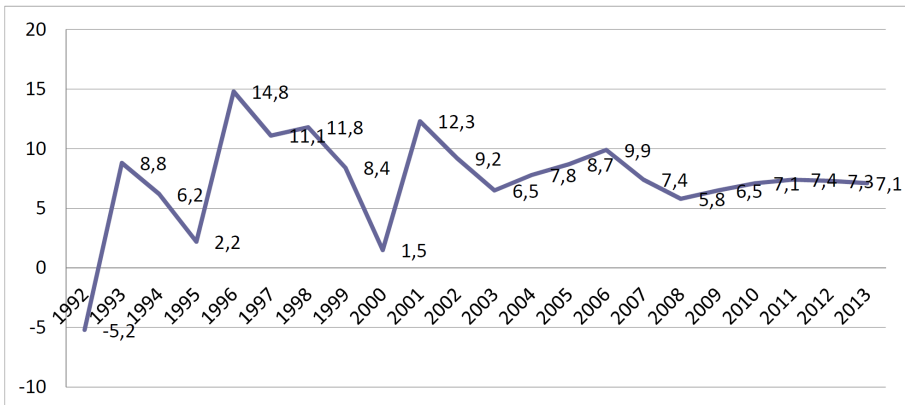
Other international cooperation partners include the prominent emerging economies, mainly China, Brazil and India. In particular, China has been giving concessional loans to Mozambique, for the construction of infrastructure such as roads and bridges that facilitate the activities of the private sector. It is with Chinese concessional loans that Mozambique has been building, since 2013, the bridge that will link Maputo city to Catembe. The bridge will facilitate tourism, investments and the expansion of services. In addition to concessional loans, China together with India and Brazil have been investing in various sectors with greater emphasis on the extractive industry, such as coal mining in the province of Tete.

2.3 SOCIO-ECONOMIC DEVELOPMENT

The destabilisation war and the existence of unfriendly regimes in the Cold War historical context led to the institutionalisation of emergency aid as NGOs became very active across the country, although in a relatively disorganised manner at the beginning. As the war ended in 1992, the economy started to recover, as shown in Figure 1.

Economic growth in the 2000s positively affected the national budget and reduced poverty. However, while the poverty rate declined from 69.4% of the population in 1997 to 55% in 2010, recent survey data shows that poverty alleviation is stagnating and regional disparities remain serious (OECD 2013:10). The perception of stagnation of poverty alleviation does not reflect the reality because the poverty reduction mentioned refers to a period of thirteen years (1997-2010) while the stagnation refers only to a period of two years (2011-13). Thus, the difference of periods under analysis suggests that the conclusion on stagnation should be revised.

Figure 1 – Annual Percentage GDP Growth in Mozambique, 1992-2013

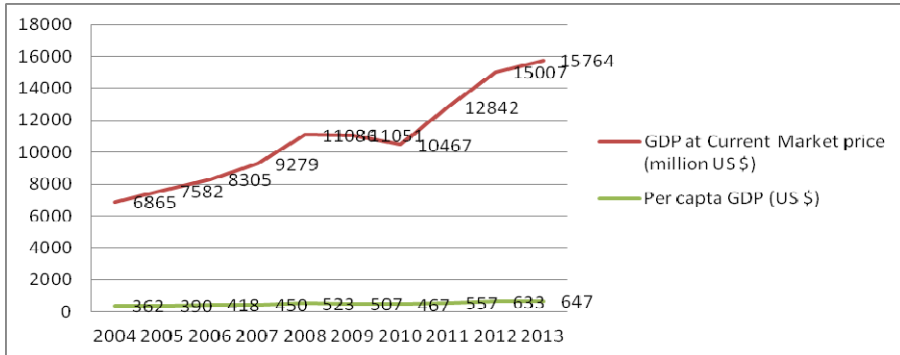


Source: OECD (2013) and SADC (2014).

Despite fluctuations in GDP, the overall economic trend in Mozambique indicates a process of steady growth. For example, Mozambique's GDP increased from 6,865 billion dollars in 2004 to 15,764 billion in 2013, an increase of over one hundred percent. Similarly, per capita GDP also

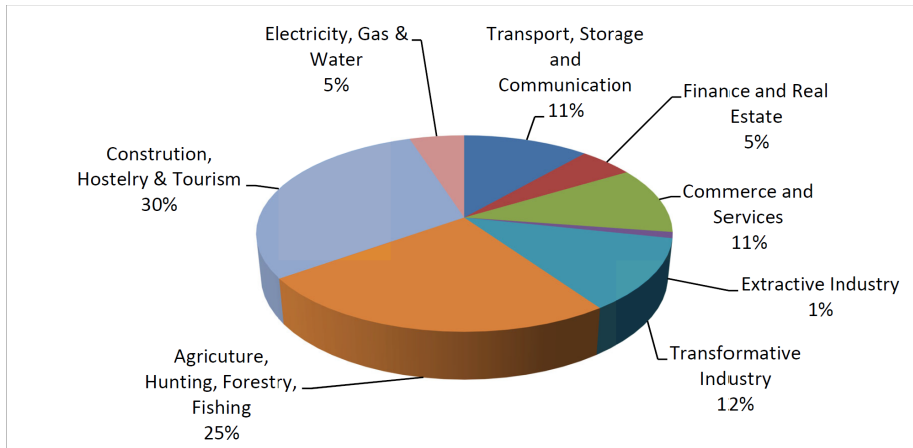
grew significantly: from 362 dollars in 2004 to 647 in 2013 (Figure 2). This economic growth has allowed the country to reduce poverty from 69.4 percent in 1997 to 55 percent in 2010. It is important to mention that the GDP is still too insignificant to accelerate development as expected by Mozambican citizens.

Figure 2 – Mozambique GDP at Current Market Price and GDP per Capita, 2004-2013



Source: SADC (2014).

Figure 3 – Mozambique GDP Composition, 2012

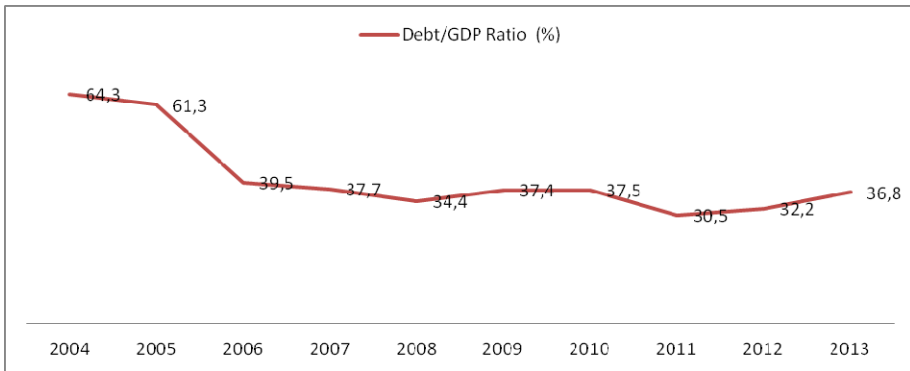


Source: OECD (2013).

A breakdown of sectors that make up the Mozambican GDP shows that the extractive industry is still performing weakly. Surprisingly, the extractive industry sector only contributes to 1 percent of overall GDP

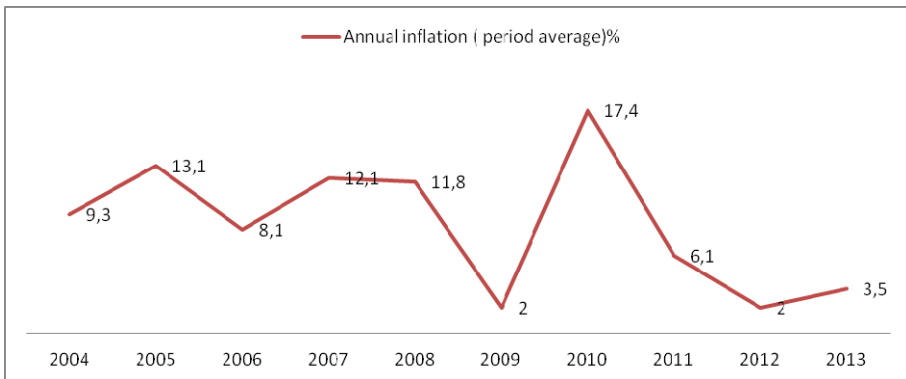
(Figure 3). Data from 2012 show that the largest contribution comes from construction, hotelery and tourism representing 30 percent of GDP followed by industry, agriculture, hunting, forestry and fishing with 25 percent of GDP. With the exploration of natural gas the extractive industry may grow from 2018 with positive effects on the economy and for the State budget, consequently decreasing the dependence on external financing and increasing wealth for Mozambicans.

Figure 4 – Mozambique Debt/GDP Ratio (%), 2004-2013



Source: SADC (2014).

Figure 5 – Annual Inflation Rates (% , period average), 2004-2013



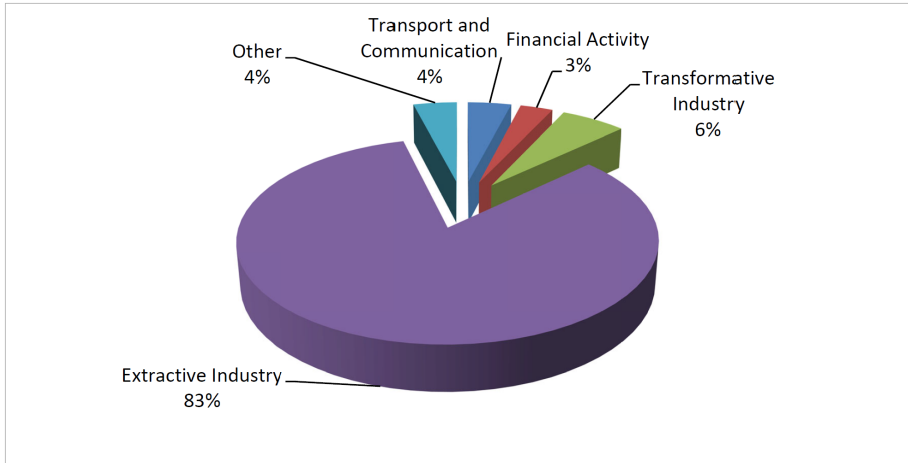
Source: SADC (2014).

The control of public debt and inflation contributes to the sustainability of economic growth in Mozambique. For example the debt-to-GDP ratio has remained below 40 percent since 2006 (Figure 4). Yet inflation and high interest rates persist as a challenge. With regard to inflation, 2010

marked a peak with 17.4 percent, however in 2009 and 2012 inflation decreased to 2 percent. This variation is indicative of some price instability in the Mozambican market (Figure 5).

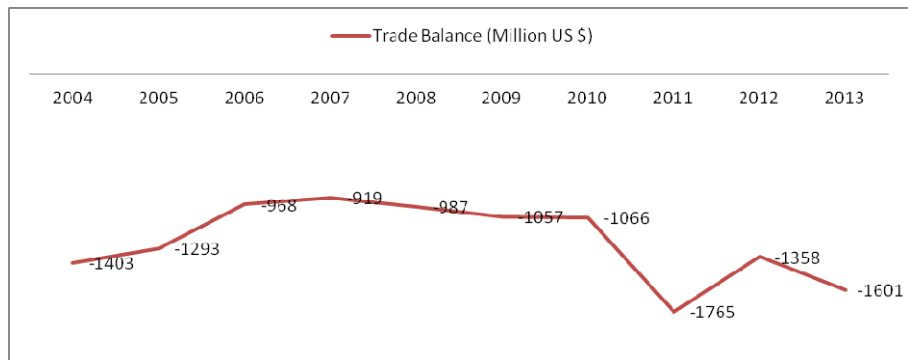
Foreign direct investment has been attracted mainly to the mining industry. In 2011 the extractive industry absorbed 83 percent of the total inflows (Figure 6). The manufacturing industry absorbed 6 percent followed by the transport and communications sectors and financial activities. Other sectors absorbed only 4 percent of FDI.

Figure 6 – Sectorial Composition of Mozambique FDI, 2011



Source: OECD (2013).

Figure 7 – Mozambique Trade Balance (million dollars), 2004-2013



Source: SADC (2014).

The deficit in the trade balance (Figure 7) shows that Mozambique imports more than it exports. This is likely to continue with the development of “mega-projects,” as they require the import of expensive machinery. Conversely, Mozambique exports agricultural products such as sugar, tobacco, cotton and cashew nuts that are usually cheaper in the international market.

The deficit scenario may change positively when the export of liquefied natural gas starts in 2018. It should be accompanied by the development of a heavy manufacturing industry in order to give added value to export products. Therefore, it is expected that in the near future the Mozambican trade balance may reach the point of equilibrium.

Analysis of performance of the Mozambican economy shows that the country is growing steadily. The most significant contribution comes from the construction, hospitality, tourism, agriculture, fishing, hunting and forestry sectors, which in 2012 contributed 55 percent of the total GDP. Despite the encouraging results for economic growth, poverty reduction is not progressing, inflation is unstable and interest rates are high (above 20 percent), FDI is focusing on the mining industry and the trade balance is in deficit.

2.4 PRIVATE SECTOR AND DEMOCRATIC GOVERNANCE

According to Kaufmann et al. (2010:4), good governance can be measured by the following key indicators: (1) voice and accountability, (2) political stability and absence of violence, (3) government effectiveness, (4) regulatory quality, (5) rule of law and (6) control of corruption. For reasons of structure, in this study the political stability and absence of violence indicator will be presented in the section on private sector and stability.

In terms of voice and accountability, the Mozambican government system is now a multi-party democracy based on the supremacy of the Constitution, the rule of law, the guarantee of fundamental human rights and popular participation through periodic and competitive elections (APRM 2010:88). Article 48 of the Constitution, together with the media law (Law No. 18 of 10 August 1991) and the Right to Information Act

passed in August 2014, uphold the principles of freedom of expression and provide for participation. The expansion of private media is a visible sign of freedom of expression. Newspapers, television stations and private radio represent a noticeable achievement, participating in governance and contributing to the education, awareness building and information of Mozambican society.

Mozambique has more than 50 parties of which three are prominent: the FRELIMO, the RENAMO and the Democratic Movement of Mozambique (*Movimento Democrático de Moçambique*, MDM), all with seats in Parliament. Article 178 of the Constitution provides for separation of powers as well as checks and balances, making the government accountable to Parliament and requiring that the Head of State present a State of the Nation report to Parliament at the end of each year.

Mozambique has had competitive and periodic elections since 1994. Mozambicans have voted in five general elections (presidential and legislative), four local and two provincial level elections. However, election results have been repeatedly challenged, with accusations of irregularity in the processes and fraud. For example, RENAMO organised demonstrations in November 2000 in Montepuez protesting against the results of the general elections of 1999 and in September 2005 in Mocímboa da Praia against the election results of 2004. RENAMO also contested the 2009 elections, a claim that slipped the central region of the country into instability. Thus, acceptance of election results by the losing parties remains a challenge for Mozambique.

As for government effectiveness and regulatory quality, some progress has been achieved in the areas of education, health and the rule of law. Statistics show that the population of Mozambique increased from 18,962,000 inhabitants in 2004 to 24,366,000 in 2013 and life expectancy increased from 46.7 years in 2004 to 53.1 years in 2013. Between 2004 and 2014, primary education among the general population increased by 57 percent, secondary education by 197 percent, technical and vocational education by 40.3 percent and higher education by 464.4 percent (Mozambican Presidency 2014:27). This means that more skilled human resources are now at the disposal of the private sector than in the past, allowing companies greater opportunity for growth and development. The number of doctors has more than doubled from 441

in 2005 to 920 in 2014. Similarly, public service has also grown from 2001 to 2014.

The process of decentralisation of powers and deconcentration of competences has accorded greater responsibility to districts and local advisory councils. These councils allow for the participation of citizens in the decision making process at local level, leading to improved governance effectiveness. Although governmental policies have a certain degree of effectiveness, the capacity of central and local institutions should be strengthened, together with the implementation of policies aimed at greater participation and well-being of the people.

Many initiatives have been undertaken by the government in the area of rule of law and control of corruption. The country has 141 prosecutors of which 130 are deployed at the district level. The network of the Institute of Legal Assistance and Representation covers 135 districts of the total 150 districts and Judicial Courts cover 123 districts (Mozambican Presidency 2014:52, Paulino 2015:2). The creation of the Ombudsman Office and the National Human Rights Commission in 2012 also shows the importance that the government attaches to the rule of law in Mozambique.

In terms of legality there are positive developments, such as production of orders by the prosecutors which are duly complied with by the Criminal Investigation Police, timely completion of the first interrogation of the arrested by judges for criminal prosecution, daily selection in Police Commands and Squads by prosecutors, and an increasing improvement of collaboration between the judiciary and other organs of the State (Paulino 2015:12). There is also improvement in humane treatment of prisoners through their participation in agricultural and livestock production, education, sports and cultural activities.

However, there are still many challenges to overcome, among them the failure to meet deadlines for preparatory instruction and probation, denial of conditional release for alleged non-payment of claims, and enforcement of arrest mandates without competent orders (Paulino 2015:12). The prisons and police cells are overcrowded, thus degrading the hygiene conditions. Another challenge is the detention in the same cell of prisoners of different age groups and different levels of risk.

The most prominent organised crime networks are involved in drug

trafficking, money laundering, car theft, arms trafficking, and trafficking of human organs. These groups and their networks are not confined to Mozambique, but extend to other countries, including Portugal, Pakistan, Brazil, the United Arab Emirates and South Africa (Paulino 2015:12). To date, there is no evidence of a linkage between organised crime networks active in Mozambique and terrorism.

In 2013, the country's criminal networks engaged in a high number of kidnappings in return for large ransoms (Paulino 2015:12). As a result, many businessmen and family members of employees of "mega-projects" left the country. Insecurity caused by abductions and clashes between the government and RENAMO in Sofala province affected the activities of the private sector.

In response to the surge in kidnappings, Parliament approved the Law No. 6 of 5 February 2014, criminalising and punishing the crime of kidnapping, thus giving the courts a key tool in combating it.

In Mozambique the fight against corruption is a major challenge for the promotion of democratic governance. Despite the development of policies, strategies and institutions, available data indicate that the incidence of corruption in Mozambique remains worrying. For example, between April 2013 and April 2014, the courts processed 600 cases concerning corruption and 276 for misappropriation and misuse of funds or property of the State. These relatively high figures show that corruption is a serious threat to Mozambique; yet they also illustrate the commitment of the justice system to fighting it.

2.5 PRIVATE SECTOR AND STABILITY

Since the end of the civil war in 1992, Mozambique can be considered a stable country despite localised pockets of instability, especially in the post-election periods. Crime has also created instability in localised areas of the country. This section analyses the instabilities related to the post-election periods and crimes, especially kidnappings and piracy.

Analysing the instability linked to post-election periods, I argue that the post-election periods in Mozambique have been violent since 1994 when the country organised its first general elections. RENAMO has

never accepted the election results as fair, transparent and credible and many people died in November 2000 in Montepuez, and in September 2005 in Mocímboa Praia, when RENAMO organised demonstrations against the results of general election of 1999 and 2004 respectively (Wache 2013:1).

The aftermath of the 2009 elections was particularly unstable and had a general negative impact on the economy and the private sector in particular, since the road that links the north to the south was partially closed by RENAMO soldiers. The attack by RENAMO soldiers on the Vale Moçambique Train, a Brazilian coal mining multinational that operates in Tete province, in April 2014, was seen as a threat to foreign investors. The conflict continued until 5 September 2014, when the President of the Republic, Armando Guebuza, and the President of RENAMO, Afonso Dhlakama, signed the cessation of hostilities declaration, after more than seventy rounds of negotiations.

Diplomats from Italy, Portugal, the US, the UK and Botswana were instrumental in facilitating the negotiation process and persuading Dhlakama to sign the declaration. The agreements reached between the conflicting parties show that Mozambique has internal capacity for conflict resolution. This internal capacity is an asset in the history of the young Mozambican democracy and gives a greater sense of security to the Mozambican private sector. In addition, Mozambique enjoys much international support and has invited Portugal, South Africa, Botswana, Cape Verde, the US, Italy, Kenya, the UK and Zimbabwe to send their military experts as observers of the RENAMO disarmament process.

In relation to crime, piracy and kidnapping have been the most concerning issues for the private sector. As regards piracy, the hijacking of the fishing boat Vega 5 on 27 December 2010 led to a decision by the Mozambican government to invest more in maritime security. Agreements were signed with Tanzania and South Africa to coordinate and strengthen enforcement actions and combat piracy in the waters of the Mozambique Channel. In addition, the government purchased patrol boats from France in 2013.

Kidnappings have also concerned the private sector in Mozambique. For example, in 2013 when the abductions peaked, the Rio Tinto coal mining company “asked the families of its foreign employees to leave

Mozambique amid a spate of kidnappings” (AFP 2013). This reaction by Rio Tinto illustrates how instability has affected the private sector. In this instance, however, the situation was controlled and returned to normal a few months later.

CONCLUSIONS

This chapter analysed the public-private relationship in Mozambique in four sections. The first section presented a brief history of the ideological choices that Mozambique has made over time and emphasised its domestic, regional and international context.

The second section assessed the links between public-private sector relations and socio-economic development. Three stages of the evolution of public-private relations were presented: (1) a phase in which the public sector prevailed over the private sector, (2) a transition period and (3) the consolidation of more balanced public-private relations. The section also illustrated the main trends in socio-economic development in Mozambique, by focusing on economic growth, foreign direct investments and the large potential of energy resources such as coal, natural gas and oil. The good economic performance of the country brought a reduction in external financial dependence on traditional partners such as the European Union and its Member States and the United States. Yet, emerging economic powers are playing an important role in financing the construction of infrastructure and providing concessional loans.

The third section addressed the role played by the private sector in democratic governance, using the good governance indicators suggested by Kaufmann et al. (voice and accountability, government effectiveness, regulatory quality, rule of law and control of corruption). The chapter also described policies, strategies and other measures taken by the government in order to promote good governance in Mozambique.

The final section discussed relations between the private sector and stability. Even if Mozambique can be considered as a peaceful and stable country, some factors such as post-election demonstrations and crime, notably piracy and kidnappings, do generate instability that affects the private sector.

RECOMMENDATIONS

- The Mozambican public and private sectors should increase dialogue with a focus on lowering interest rates in order to encourage lending to private productive activities.
- Given that public-private dialogue channels are being challenged (the private sector thinks the focal point should be the Prime Minister or the President of the Republic), it is urgent to find a satisfactory answer for this issue in order to continue to strengthen the business environment in the country.
- In a multi-polar world context, it is recommended that the Mozambican public-private sectors diversify their financial partners to avoid the risk of imposition of political, social and cultural values.
- Funds provided by Mozambique's Programme Aid Partners (European Commission, United States and others) could also benefit commercial banks so that they can extend low-interest loans to entrepreneurs and expand the time of repayment.
- The EU and the US should simplify and streamline criteria for access to the EDF and MCA and redesign them in coordination with partner countries in order to make them flexible and more efficient.
- Western partners should eliminate their political conditionality in the provision of funding to developing countries, including Mozambique, or risk becoming irrelevant with the rise of emerging economies with concessional loans, without political conditions.
- Mozambique's position as a rim country makes it vulnerable to organised crime and piracy. The EU and the US should coordinate with the Mozambican government to strengthen the security capabilities of the country.

