

MOZAMBIQUE AT A FORK IN THE ROAD: AN INSTITUTIONAL DIAGNOSTIC

EDI Annual Conference

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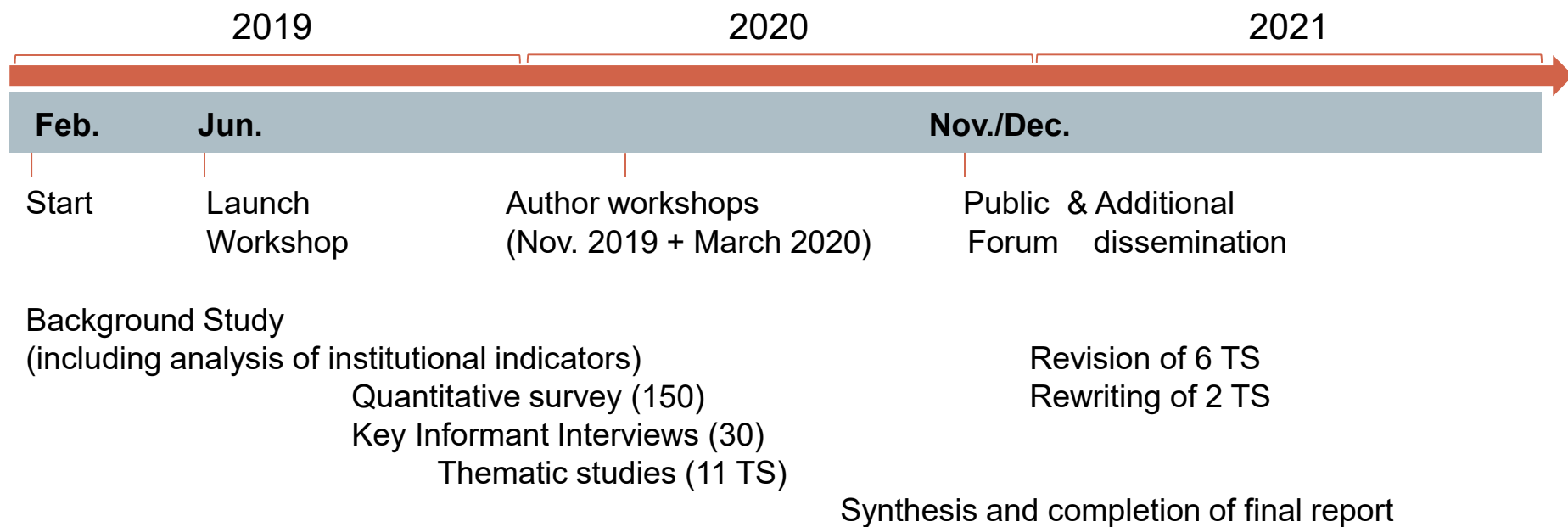
18 December 2021

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Introduction

Project stages



Study list

PART I. GENERAL APPROACH TO THE DIAGNOSTIC

- “Economic development in perspective”, by António S. Cruz, Ines A. Ferreira, Johnny Flentø, Sam Jones, and Finn Tarp
- “Institutional performance: Perceptions of institutional constraints - quantitative and qualitative insights”, by António S. Cruz, Ines A. Ferreira, Johnny Flentø, and Finn Tarp

PART II. THEMATIC PAPERS

- “The relative neglect of agriculture”, by João Z. Carrilho, Ines A. Ferreira, Rui N. Ribeiro and Finn Tarp
- “Schooling without learning: institutional causes”, by Mouzinho Mário, Celso M. Monjane, and Ricardo Santos
- “Obstacles to the provision of health care services”, by Ivo Garrido
- “The political stakes of decentralization”, by Salvador Forquilha
- “The saga and limits of Public Financial Management”, by António S. Cruz, Ines A. Ferreira, Johnny Flentø, Finn Tarp and Mariam Umarji
- “Rule of law and judicial independence - The restricted capacity of the judicial system”, by João Carlos Trindade
- “The changing dependence on donor countries”, by Johnny Flentø and Leonardo Santos Simao
- “The uncertain development impact of the extraction sector”, by José Jaime Macuane and Carlos Muianga

PART III. SYNTHESIS

- “A country at a fork in the road”, by António S. Cruz, Ines A. Ferreira, Johnny Flentø, and Finn Tarp

Other completed studies

- “Putting the financial system to work for the poor and SMEs”, by Abdul Magid Osman and Djamila Pontes Osman

A fork in the road

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

A fork in the road (cont.)

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

Core messages from our background study

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- Historical roots go deep, including **regional fragmentation** and **ethnic discord**. **Colonial exploitation** left Mozambique at an extremely low level of development at Independence in 1975.
- The **Marxist-Leninist regime** from 1977 impacted greatly on socio-economic change. **Misconceived policies** (that seemed obvious to many at the time) were forcibly introduced and influential members of the Frelimo leadership opposed any kind of **private sector development**.
- The country was born into violent conflict with two of Africa's strongest countries: **South Africa** and **Rhodesia**. These were the exact two countries Mozambique's own economy and infrastructure had been set-up to serve and do business with.
- The international donor community responded to an IMF/World Bank led Economic Rehabilitation Programme in 1987 and peace in 1992 with significant amounts of **foreign assistance**. Economic recovery took place but a **growth engine** remained absent.

Core messages from our background study (cont.)

- **Foreign aid** flows and the **role of donors** have been of critical importance. For example, foreign financing has been hugely important for the funding of public expenditures, but aid has also been associated with the side effects of aid dependence.
- The liberalization and privatization inherent in the structural adjustment programme not a simple technical measure. The **merging of political and economic power** began, and possibilities for **rent-seeking and elite capture** evolved.
- Meanwhile, Frelimo failed to implement the measures necessary for **agricultural development**, critical for structural transformation, poverty reduction, and inclusive development; and efficiency and effectiveness of public sector services has remained low.
- From around 2005 **institutional indicators** started declining as the Frelimo leadership changed and natural resources were discovered.

Core messages from our background study (cont.)

- **Solid macroeconomic management** played a key role in addressing the economic crisis that erupted following the hidden debts crisis in 2016, but costs to the economy due to the stabilization measures needed were significant.
- The causes of the **recent military insurgency** in Cabo Delgado still debated, but include local discontent caused by limited socio-economic development and activities of both local and international Islamic groups in an area where illegal trade has been prevalent.
- Mozambique has been engulfed by **violent conflict** for more than 15 of the 45 years since 1975, to which come a series of extreme natural **calamities** and other crises. This succession of **crises** imply that Mozambique has not been a 'normal' country for anything but for brief periods since Independence.

Institutional diagnostic: Summary table

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

Proximate causes and deep factors

Proximate causes and deep factors

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

Proximate causes and deep factors (cont.)

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

Proximate causes and deep factors (cont.)

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

Proximate causes and deep factors (cont.)

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

Reform priorities

Reform priorities

- **Agriculture and agro-industry** must take centre stage
 - Address existing poverty;
 - Tackle fragmentation and spatial inequality and ultimately conflict, on the one hand, and macroeconomic challenges, including *Dutch disease* due to natural resource rents, on the other;
- Developing a unifying **vision** for a **growth strategy**
 - Centred on agriculture and agro-industry, labour-intensive private sector dynamics and natural resources
- Address the imperative of having entities suited to deal with **foreign nations** and the need for alignment of the foreign investments with a truly national, unifying development strategy and investment plan

Thank you