

# BTI 2014 | Mozambique Country Report

<b>Status Index</b>	1-10	<b>5.50</b>	# 70 of 129	
Political Transformation	1-10	6.10	# 58 of 129	➔
Economic Transformation	1-10	4.89	# 82 of 129	➔
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	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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### Key Indicators

Population	M	25.2	HDI	0.327	GDP p.c.	\$	1023.9
Pop. growth <sup>1</sup>	% p.a.	2.5	HDI rank of 187	185	Gini Index		45.7
Life expectancy	years	49.5	UN Education Index	0.222	Poverty <sup>3</sup>	%	81.8
Urban population	%	31.5	Gender inequality <sup>2</sup>	0.582	Aid per capita	\$	75.4

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

In 2012, Mozambique celebrated the 20th anniversary of the Rome Peace Accords that brought an end to the country's civil war. Over the last two decades, the ruling party has been able to extend and consolidate its dominant position in Mozambique's political system. The main opposition party, Mozambique National Resistance (Resistência Nacional Moçambicana, RENAMO), has become progressively weaker from election to election, with its leader Afonso Dhlakama engaging in belligerent rhetoric. In 2012, Dhlakama withdrew with hundreds of ex-RENAMO fighters to the forests in Gorongosa National Park with the aim of pressuring the Mozambican government into negotiations.

Despite the overwhelming majority attained by the Front for the Liberation of Mozambique (Frente de Libertação de Moçambique, FRELIMO) in the last elections, the RENAMO leader demanded the formation of a government of national unity, the integration of his party's former combatants (most of them already of retirement age) into the ranks of the Mozambican Defense Forces, a delinkage of party and state, and the further politicization of the National Electoral Commission (CNE) by eliminating the representatives of civil society currently serving as members. This came at a time when the parliament just had passed a new electoral law package, which also established a new structure for Mozambique's electoral commission. Under these new rules, the CNE will have eight members drawn from political parties and five from civil society.

Interim elections in various municipalities in 2012 served as a precursor to the forthcoming municipal and national elections (2014). In some towns, where majorities for the opposition were feasible, the significant presence of police forces (including in polling stations) created a climate of intimidation, and even drew the attention of the Constitutional Council. In some other cases supporters from the opposition intimidated voters.

The fusion of state, party and the economy has continued. In this context, it might be telling that Prime Minister Aires Aly, who had been groomed to succeed President Armando Emilio Guebuza

in the next elections, failed to win re-election to FRELIMO's central committee during the party's 10th congress held in Pemba in 2012. In the subsequent cabinet reshuffle, Aly was ousted, and Guebuza instead installed Alberto Vaquina, who is expected to act in favor of the ruling elite's business interests. As provincial governor, Vaquina previously oversaw the multibillion dollar coal-mining investment boom in Tete. At the time of writing, FRELIMO did not yet have an official candidate for the 2014 presidential elections. With Guebuza confirmed at the party congress as the party's president, this candidate, whoever it might be in the end, will have a difficult time establishing independence from the party leader.

On the economic front, Mozambique continued to benefit from the natural resource exploration ongoing in the northern provinces of Tete and Nampula.

High economic growth rates over the last 20 years (approximately 7.2% for the last decade) have not managed to create a more inclusive society. To the contrary, the cleavage between the majority of the population living in rural areas (65% – 70%) and the developing urban-middle-class strata has widened. Mozambique's economic performance is thus marked by extremes, largely due to the ongoing megaprojects on the one hand and the structure of an underdeveloped, mainly agrarian economy on the other. The country remains one of the poorest in the world, ranked by the UNDP's 2011 Human Development Index at 184th place out of 187 countries, below so-called failed states such as Haiti (158), Afghanistan (172) and the Central African Republic (179).

One of the Mozambican government's biggest challenges in coming years will be expanding the country's fiscal base. Internal revenue generation has to be increased, and dependence on foreign loans and grants reduced. These latter sources of income still account for about 40% of the state's budget. Enhanced efficiency in revenue collection remains essential for any improvement in the fiscal revenue sector, but this would also necessitate a renegotiation of the megaprojects contracts.

The formal economy remains largely urban and accounts for only 32% of overall employment. With 300,000 new labor market entrants each year due to high population-growth rates (currently 2.8% annually), many young people find employment only in the informal sector or in the form of temporary, marginal jobs. Therefore, job creation has to become another top priority for the government, linked with the crucial topics of vocational training and basic education.

## History and Characteristics of Transformation

On 4 October 2012, Mozambique celebrated the 20th anniversary of the peace agreement that put an end to nearly two decades of civil war between the FRELIMO socialist liberation movement and the RENAMO national resistance movement. Both parties had received external support in the context of the Cold War and through the neighboring white minority regimes in Rhodesia and South Africa. This came to an end with the power change in Zimbabwe following the Lancaster House agreement, as well as with the fall of the iron curtain.

In fact, FRELIMO had already started the transition process before the end of the civil war with a new constitution establishing a multiparty system and free market economy (1990). Like transitions in other lusophone countries, it was led from above, steered by the ruling political elite and adapted to their needs. This feature remains the dominant characteristic of Mozambique's transition process today. Neither civil society nor opposition parties have played a decisive role in shaping the country's democratization process. As a result, FRELIMO has won all presidential and parliamentary elections by increasing margins over time. The ruling party consolidated its grip on power over the last two decades by presenting itself as a credible partner for the international donor community. By fostering a free-market economy and establishing a favorable tax regime, it opened the country to foreign direct investment, which provided the country with macroeconomic growth rates well above other countries in the region. The discoveries of coal deposits in the northern province of Tete, gas in Inhambane province and petroleum offshore have not only attracted international mineral-resources companies, but have also linked business interests, party and that state much more tightly together.

On the political front, the bipartisan character of the party system seemed to dissolve with the emergence of the Democratic Movement of Mozambique (Movimento Democrático de Moçambique, MDM) in the 2009 elections. An offspring of RENAMO, it remains to be seen whether MDM will manage to absorb RENAMO's vanishing support or position itself as a credible political alternative.

Whereas political and economic liberalization progressed under President Joaquim Chissano, the assumption of the presidency by Armando Emilio Guebuza, the former minister of the interior and a well-established businessman, has brought a change in style. Regressive tendencies can still be noted in the democratization process. A self-absorbed and business-oriented political elite received a wake-up call in the form of riots in 2008 and 2010, demonstrating the government's growing distance from its own population. But the behavior of the opposition also demonstrates little adherence to democratic values. RENAMO leader Afonso Dhlakama rules his party in an autocratic style and engages in belligerent rhetoric even 20 years after the Rome Peace Accords, while MDM is dominated by the two Simango brothers and other affiliated family members.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Question  
Score

Recent events led by the RENAMO opposition party, as well as deeply entrenched systemic challenges, call the Mozambique state's monopoly on the use of force into question.

Monopoly on the  
use of force

7

Echoing actions during the time of Mozambique's civil war, RENAMO leader Afonso Dhlakama withdrew in 2012 with hundreds ex-RENAMO fighters to the forests in Gorongosa national park, cordoning off the area under his control, aiming to pressure the Mozambican government into negotiations.

Despite the overwhelming majority attained by FRELIMO in the last elections, the RENAMO leader demanded the formation of a government of national unity, the integration of its former combatants (most of them already of retirement age) into the ranks of the Mozambican Defense Forces, a delinkage of party and state, and the further politicization of the National Electoral Commission through the elimination of civil society representatives from its ranks.

In response, the government declared itself available for negotiations but abstained from entering the occupied territory. At the end of January 2013, Dhlakama was still encamped in the former RENAMO headquarters known as Casa Banana in Gorongosa. While local media reported ongoing training of the ex-combatants, the government deployed its rapid reaction force (FIR) to the area. As of the time of writing, RENAMO's leader and its ex-combatants remained in Gorongosa despite the FIR presence.

The state's monopoly on the use of force and capacity to guarantee the security of its citizens must also be questioned more generally. Ordinary crime and the appearance of organized crime cartels have jeopardized the state's control and maintenance of public order.

The legitimacy of the Mozambican state derives from its establishment in the decolonization process and its subsequent institutionalization and constitutionalization.

State identity  
9

With the aim of keeping ethnic tensions at bay, FRELIMO sought to construct a new identity defined by Mozambicanness. One effect of this policy was the marginalization of local languages and the introduction of Portuguese as the primary language of education. With the introduction of political pluralism during Mozambique's transition process in the early 1990s, local identities again became prominent. Most newly founded parties were drawn from the north and central regions of the country, where ethnic groups felt marginalized by a FRELIMO government whose elite hailed mainly from the south. Federal concepts subsequently started to feature much more prominently in the opposition-group discussions. Even within FRELIMO, associations identifying with certain regions began to form (e.g., Movimento Cívico de Solidariedade para Apoio da Zambézia (MOCIZA), in which FRELIMO parliamentarian Helder Muteia plays a prominent role).

These regional and ethnic lobby groups do not oppose the Mozambican state as such, but have set themselves against domination by FRELIMO cadres who represent only certain ethnic groups and do not reflect the diversity of society. Thus, ethnic pressure appears to be primarily directed toward gaining access to state resources, rather than representing a danger to the state as such.

Probably more than in previous periods, ethnic identification remains strong, but the nation-state as such is overwhelmingly accepted, and pride in being Mozambican is quite vocally expressed, particularly in urban areas.

Article 54 of the Mozambican constitution guarantees the freedom of religion and underlines the laic character of the state. Discussions provoked by the new regulations addressing the wearing of veils in public schools, supported initially by the vice-minister and the minister of education, indicated that many Mozambicans interpreted these rules as interference in a private affair.

No interference of  
religious dogmas  
9

The Islamic Movement of Mozambique (MIMO) has heavily criticized government interference in Muslim culture and tradition. Similarly, the Catholic Church recently offered a similar protest in the form of a pastoral letter. In the latter case, a parliamentary commission for constitutional affairs, human rights and judicial affairs had proposed the decriminalization of abortion and the legalization of bigamy.

Mozambique offers fertile ground for Pentecostal churches. The overwhelmingly poor majority of people seek to mitigate their sufferings through faith, and people quite often belong to multiple churches simultaneously. The most popular church has become the Brazilian Igreja Universal do Reino de Deus (IURD). The IURD organizes massive events where as many as 50,000 worshippers or more gather in stadiums. In addition, its own television channel (Miramar) allows it to influence the masses on a daily basis. Its popularity has earned it the approbation of the political

elite. The church's leadership has been received by President Guebuza, and mega-events are attended by high-ranking government officials such as the prime minister and the minister of justice.

Basic administrative structures exist, and in the past two decades efforts have been made to decentralize state authority to the local level. Indeed, the government and donors have come to see this as a prominent pillar in their efforts to reduce poverty in Mozambique (see, for example, the PAPA and PARPA poverty-reduction strategy papers). Unfortunately, the degree and character of decentralization, which could be a catalyst in this regard, has not provided the necessary environment for further socioeconomic development across the country. The autonomous status granted to certain municipalities (autarquias) has given their executive councils the ability to improve basic social services. But due to a continued financial dependence on the central state, achievements vary widely across the country. Towns such as Beira, for example, have demonstrated genuine success, while other towns such as Pemba have been unable to adapt their public-service infrastructure to the needs of a developing tourism industry. Indeed, citizens in this northern town have suffered from frequent cuts in their water supply for three years, and sometimes have to go without water for a week.

Basic  
administration  
5

With initiatives such as the Fund for District Development (Fundo de Desenvolvimento Distrital), in addition to President Guebuza's local-community visits (Presidência Aberta e Inclusiva), the central government has undertaken to develop its service provision and to strengthen the ties between party and population. However, a recent evaluation conducted by the Mozambican Center for Public Integrity shows that the management of the Fund for District Development displays substantial weaknesses, and has not lived up to its potential. An overall lack of transparency indicates that fund expenditure serves primarily to benefit projects supported by local and national elites. The quality of public access to basic services is poor; only 18% of the country's residents have access to sanitation, and 47% have access to fresh water. These figures are clearly below the world average.

## 2 | Political Participation

From a democratic-theory perspective, Mozambique can certainly be classified as an electoral democracy. Since its end of the civil war in 1992, Mozambique has conducted multiparty elections on the national level (presidential and parliamentary ballots in 1994, 1999, 2004, 2009; first provincial elections in 2009) and the local level (municipal elections in selected autarquias in 1998, 2003, 2008). As parliament approved necessary amendments to the electoral law during the period under review, the next round of local elections can be held on schedule in 2013.

Free and fair  
elections  
7

Aside from localized incidents of intimidation by the opposition, all elections can in general be classified as free. Due to the overwhelming dominance of the ruling party, the disproportionate access of FRELIMO candidates to state resources, and procedural limitations for opposition parties, the competitive playing field is very far from level. The most striking features of this imbalance has been the exclusion of numerous political parties, including the CNE's 2009 decision to bar emerging opposition party MDM from contesting the parliamentary elections in many constituencies. In the most recent national elections, only FRELIMO and RENAMO were allowed to compete in all 13 constituencies (with MDM participating in only four).

An incoherent package of electoral laws has provided conducive to interpretation in favor of a particular political party. Therefore, international donors pressurized the Mozambican parliament to revise the electoral law so as to harmonize and improve the inconsistent legislative framework. This was done with the support of civil society, and the legislative work was concluded in autumn 2012.

The Constitutional Council (CC), the body responsible for complaint resolution, is composed of judges appointed on the basis of the proportional representation electoral system. Thus, the dominance of FRELIMO calls into question the independent character of this body.

Interim elections in 2012 in various municipalities served as a test of what to expect in the forthcoming municipal and national elections (2014). In Quelimane in 2012, the significant presence of police (including in polling stations) created a climate of intimidation and even drew the attention of the Constitutional Council. The council also criticized the ruling party's use of state vehicles and even public servants in their campaigns. Impunity for electoral crimes has also been a subject of criticism. Observers have noted that polling stations use different and incompatible voter registers, leading to confusion and fostering suspicion.

With the fusion of state and party that has been further exacerbated under the Armando Guebuza presidency, as well as the engagement of the FRELIMO nomenklatura in the business sector, the primary interference into political processes comes from the ruling elite itself. Within this elite, as the 10th FRELIMO Congress held in Pemba in September 2012 showed, Guebuza's influence has been fortified. While the president will not himself be able to stand for re-election candidate again in 2014, he has clearly peopled the central committee's ranks with his own loyalists. The previous schism within the party, between the technocrats allied to former President Joaquim Chissano and the orthodox wing of Guebuza securocrats, seems to have been closed largely through the rise to dominance of the Guebuza faction. The cabinet reshuffle that took place in October following the party congress also has to be seen in this light. By firing his presumed political successor Prime Minister Aires Aly and replacing him with Alberto Vaquina, formerly governor of Tete

Effective power to govern

7

province, Guebuza moved to expand his control over the economy. Aly had previously been the president's second-in-command and was reportedly being groomed to succeed Guebuza in the 2014 election.

It will be interesting to observe how Guebuza's power and influence as FRELIMO president will play out ahead of and after the 2014 elections. The party's candidate will certainly be one of his choosing; however, it will be interesting to see whether this person will seek to shape an independent political profile or simply accept a role as puppet of the current incumbent.

Article 52 of the Mozambican constitution guarantees every citizen the right to associate freely, although organizations pursuing xenophobic, racist or violent objectives are not allowed. Article 53 enshrines the right to establish and join political parties. In practice, most social groupings are organized as associations, and are regulated by Law No. 8/91, which details the right to free association, as well as by the relevant articles in the Civil Code (Arts. 167/184).

Association /  
assembly rights

7

Civil society in Mozambique is fairly heterogeneous. There are a number of FRELIMO-affiliated mass organizations, a few independent civil society organizations (CSOs) operating mainly from Maputo and/or provincial capitals, and many local self-help associations that remain largely informal, unregistered and provide services as a substitute for absent state functions. More than 5,000 CSOs are formally registered today, many of which are of a religious character or are concerned with humanitarian assistance. However, existing legislation makes it cumbersome, complex and expensive to register. In order to register as a CSO, a minimum of 10 people are required to start the process. All must submit an official criminal record, which is extremely difficult to obtain. In order to qualify for tax alleviation, the organization has to be given the status of public utility, which can only be achieved by going through the Council of Ministers, which represents another major barrier.

For many observers, the bread and fuel riots that occurred in 2010 and which brought a large segment of society to the streets highlighted the failure to translate economic growth into social development. However, it also underlined the weakness of Mozambican civil society, which was not able to express the grievances of society effectively, failed to become a legitimate advocate for the populations' needs, and was unable to transform the anger in the streets into nonviolent discussions with government.

While 2007 – 2008 was perceived as a successful period for the consolidation of NGO platforms and networks with a strong sense of progress, the following years have by contrast been less productive.

The Mozambican constitution guarantees the freedom of expression, the right to information and the freedom of the press in Article 48.

Freedom of  
expression

7

In this favorable context, a pluralistic media landscape has developed in the country since the time of its first multiparty elections. According to the Government Information Bureau (Gabinete de Informação, GABINFO) there are 119 registered newspapers and magazines in Mozambique. However, only 27 are actually active, including information services that were previously run as fax newsheets and are now distributed digitally.

Article 49 of the 2004 constitution safeguards the rights of political parties to coverage by the two public broadcasting entities, Radio Moçambique (RM) and Televisão de Moçambique. It also guarantees the rights of civil society organizations and trade unions to be heard on the public broadcasting services.

As it currently stands, the Press Law in some cases restricts the dissemination of information by the media and thus contradicts the freedoms enshrined in the 2004 constitution. An update of the media law proposed by civil society organizations has been stalled in parliament since 2005.

Political figures have mainly used the libel law to put pressure on journalists or independent newspapers that have published stories on corrupt practices. Despite the atmosphere of press freedom, various structural deficiencies and shortcomings in training weaken Mozambican journalism.

Despite those limitations, Mozambique's assessment with regard to press freedom has continuously improved in recent years. This has been well documented in Reporters Without Borders' Press Freedom Index, in which Mozambique moved from 73rd place in 2007 to 66th place out of 179 countries in 2011.

Infringements on the freedom of expression have been vocally made public by the independent media itself or by CSOs such as the Sindicato Nacional de Jornalistas (SNJ) or the Liga de Direitos Humanos (LDH). However, the number of civil society organizations to play an active monitoring or watchdog role remains limited, with most such groups focused on the capital. In this regard, academia is filling the gap, with researchers regularly publishing critical analyses on governance in Mozambique either as academic papers or as blogs and comments in the media.

### 3 | Rule of Law

Given the FRELIMO party's dominance of society and the state administration, including the justice sector, the separation of powers does not exist in Mozambique de facto.

Separation of  
powers

4

De jure, the constitution speaks of a separation of powers in Article 134. However, rather than looking to the constitution and their own institutional independence in the course of decision-making processes, representatives of the judiciary, executive and legislature look instead to the party line and decisions from the party presidency.

This is quite evident in the judicial sector, where appointment mechanisms (judges and the state attorney are appointed by the head of state) and financial dependence on the executive open this branch of government to government interference.

The role of the parliament remains equally weak. The 2004 constitution limits parliamentary competencies, tipping the balance of power in favor of the government. But it is mainly the overall dominance of FRELIMO and the increasing degree of party discipline that makes it difficult for members of the National Assembly to hold the government to account. Legislative proposals are frequently put on hold as a consequence of the government's parliamentary majority and agenda-setting capacity. In addition, the government's habit of ruling via "decreto-lei" (governmental decrees) limits legislative powers.

Actors such as civil society organizations, which could in theory provide at least some checks by monitoring the executive, are weak on capacity and finances and lack the necessary strategic orientation. Moreover, many of their leaders are members of the ruling party.

The independence of the judiciary is heavily impaired by political authorities.

An assessment conducted by the United Nations in 2010 revealed the inefficiencies of the sector due to interference by political authorities. When, for example, President Guebuza moved judges from the Supreme Court to the Constitutional Court, the vacancies were not filled for over a year. The poor functioning of the Supreme Court has earned it a reputation as a "cemetery for court cases." FRELIMO party affiliation is a must for anybody wishing to enter the justice system or, once there, to advance his or her career. Only half the cases that have reached the Supreme Court are being currently attended to. In total, the justice sector has a backlog of more than 100,000 cases each year.

In terms of sentencing, the Mozambican justice system does not apply the same principles to the state and to individual citizens, and corruption remains a widespread phenomenon. Low salary levels, complicated and complex judicial procedures, and inefficiencies in the system have all exacerbated the scope for corruption. All these issues have been identified as concerns by local NGOs such as the Liga de Direitos Humanos.

Despite some prominent court cases against former office holders such as ex-Minister of the Interior Almerino Manhene, who in March 2011 was charged with the abuse of state funds for private purposes and sentenced to two years in prison, others who

Independent  
judiciary

4

Prosecution of  
office abuse

4

have used their position to make business profits despite clear conflicts of interest have not even been investigated. In the case of Judge Luis Mondlane, who was investigated for mismanagement in his function as president of the Constitutional Council, the situation became rather bizarre. The former Supreme Court judge had to resign from his position at the Constitutional Council and returned to his previous position as Supreme Court judge. There, he served as judge in the second chamber for criminal offences, the same entity that would ultimately be responsible for the adjudication of his case.

Abuses by office holders on lower levels, especially within the police forces, are largely ignored. A widespread culture of impunity has consequently taken root. Amnesty International has criticized the excessive use of force by security agents and the lack of disciplinary procedures against violations of human and citizen rights.

The Mozambican constitution's Chapter III protects the basic rights of all citizens.

However, reports on human rights violations frequently cite an excessive use of lethal force by security forces, problems within state prisons, and widespread domestic violence.

Seeking to establish an independent institution and a bridge between state institutions and civil society, the government created the National Human Rights Commission in September 2012. This is now in charge of monitoring and evaluating adherence to human rights. In conjunction with the existence of the Parliamentary Commission for Human Rights and the Department for Human Rights in the Ministry of Justice, this can be seen as a small improvement in the country's institutional framework for the protection of civil rights. However, if these institutions are to make any significant contribution to the protection of human rights, their roles and individual responsibilities and their relationships in terms of communication and cooperation must be significantly improved. In addition, the second-generation rights in the socioeconomic domain have increasingly gained significance with the new wave of natural-resource exploitation in Mozambique. These rights in particular, as well as the constitutionally protected right to an intact environment (Art. 90) have experienced increased infringement in parallel with the exploration boom.

#### 4 | Stability of Democratic Institutions

Mozambique's institutions, including legal frameworks, have developed considerably over the last decade. However, shortfalls remain in terms of implementation.

The weaknesses of the judicial system have been noted above. Because of its significant dependence on external donor funding, Mozambique has become a pioneer in the establishment of coordination mechanisms between government and

Civil rights

6

Performance of  
democratic  
institutions

6

donors. In previous periods, it made impressive advances with respect to the implementation of the Paris Declaration on Aid Effectiveness in a relatively short time. Nevertheless, the government's lack of accountability to parliament or to civil society organizations, as well questions about the sustainability of results and the impact of policies on the poorest levels of society, all remain causes for concern.

The government provides minimal information to the public, making it almost impossible for citizens to hold government accountable for its management of public resources. This said, the government has in fact substantially enhanced transparency with respect to the state budget, particularly in terms of access to relevant documents. While Mozambique was given a score of 28 (out of 100) in the 2010 Open Budget Index, it had advanced to a score of 47 by 2012.

The government has engaged in a public administration reform with the aim of addressing its lack of institutional and technical capacities. It even created a Ministry for Public Services in 2007.

Due to the ruling party's overwhelming majority in parliament (191 seats out of 250), the legislative organ has not become a vibrant democratic institution. Even culture of debate remains undeveloped, though parliament is one of the few state institutions in which opposition parties are given a voice.

The relationship between the government and parliament is unbalanced, and is dominated by the executive. The entire state authority is concentrated in the figure of the president, who is both head of state and head of government. If parliament were to reject the governmental program, the president could simply dissolve it.

In Mozambique, all major stakeholders accept democratic institutions as legitimate. However, this does not preclude their attempts to instrumentalize the system in support of individual or party interests. The party has become even more hegemonic under President Guebuza. The discourse of leading FRELIMO figures reveals a stance in which a strong and dominant single party is seen as the only way to develop the country further. While FRELIMO uses and manipulates the system to its own ends, the only actor who has repeatedly declined to join democratic institutions and has acted outside the institutional framework is Afonso Dhlakama, the leader of RENAMO, still the largest opposition party (with 51 legislators). Combining boycott and threat in his latest round of political tactics, he retreated to his former rebel movement's headquarters in Gorongosa. In various rounds of interviews, he reiterated and withdrew a threat to divide the country along the river Save. Although his criticisms addressing the FRELIMO party's dominance in the state administration and the economy bear a grain of truth, the way he acts and airs his concerns serves to discredit him and his party.

Commitment to  
democratic  
institutions

6

## 5 | Political and Social Integration

Looking at the election results of the last four national elections, it appears that the bipartisan character of the party system that developed after the end of the civil war is transforming itself into single-party dominance by the ruling party. The removal of the 5% barrier that prevented smaller parties from entering parliament did not bring about the desired effect of an enhanced pluralism. To the contrary, RENAMO abandoned the electoral alliance (União Eleitoral) it had formed with smaller parties ahead of the 2004 elections. Whether MDM, a RENAMO splinter party, will be able to maintain or even succeed in enlarging its electoral support base remains to be seen.

Party system  
6

With few exceptions the extra-parliamentary opposition remains weak in terms of organization and mobilization.

The most elaborate party structures can be found in FRELIMO, where the nomination of candidates takes place through a bottom-up approach. Despite the president's enhanced grip on the party in general, the organization itself allows for pluralist decision-making structures. Therefore, the party congress 2012 in Pemba concluded with some surprising results, as some party politicians close to Guebuza were not re-elected to the party's decision-making bodies, and even Guebuza's then-presumed successor, Prime Minister Aly, failed to win a seat on the central committee.

FRELIMO has strategically consolidated its support base during the last decade not only by mobilizing its voters on election day, but by ensuring they become party members.

It is far from clear that the RENAMO organization has successfully transformed itself from a rebel movement into a political party. Many leading political figures within the party have been sidelined or expelled by the party leader over the years, and intellectuals who have joined the party due to frustration with the ruling party's dominance have often shared the same fate. Thus, RENAMO's decline since 1999 has to be attributed to its leader, Afonso Dhlakama, who has shown himself unable to reform the party and is unwilling to step down as its leader. Although the party remains present throughout the country, its structures and networks are mainly inactive and invisible outside the electoral period.

The creation of MDM in 2009 can also be attributed to RENAMO's inability to reform. Today, FRELIMO perceives MDM as a real threat to its own power, more so even than RENAMO. Despite its limitations in the 2009 elections, when the party was allowed to stand in only nine of 13 parliamentary constituencies, MDM won eight seats. Thus, the potential of the party could be even higher than it appears, and it is certainly today considered to be the primary alternative to FRELIMO. As MDM-governed municipalities such as Beira have also shown strong results in terms of

delivering services to the people, FRELIMO has sought to advance its developmental agenda in order to protect votes that otherwise might be lost to an opposition promising a brighter future.

Labor organizations in particular remain weak in terms of articulation of their members' interests. Especially in the current context of excessive natural resource exploitation, in which labor plays a strong role, one might have expected to find much stronger organizations mediating between the interests of citizens, businesses and the state.

In fact, the national trade union (OTM-CS) is for most workers only an arm of the ruling party and thus of the government. Workers do not feel their interests are being represented, and lament their poor position relative to employers.

Cooperatives have become an important factor in the socioeconomic development of the country. About 5% of the population was organized within cooperative structures as of 2012. A total of 2,234 cooperatives are registered with the national umbrella body Associação Moçambicana de Promoção do Cooperativismo Moderno (AMPCM). As cooperatives not only provide a social safety net for their members, but also promote economic activity, they have become an important element in the emancipation of small entrepreneurs.

In 2012, the Mozambican government agreed to allow the formation of public sector trade unions, but in the same communication underlined that the right to represent public servants' interests does not extend to the right to engage in demonstrations. This suggests that the public sector will remain under the total control of the government, and will not be given enough space to negotiate over or change its social situation.

In terms of representing business interests, Mozambique's Confederation of Business Associations (Confederação das Associações Económicas em Moçambique, CTA) now faces a strong competitor, the Chamber of Commerce and Industry (Associação de Comércio e Indústria, ACIS). Unlike the CTA, ACIS is perceived to be independent of FRELIMO. Involved in a variety of corporate social responsibility programs, including HIV/AIDS programs in workplaces, ACIS seeks to represent a broader spectrum of interests as it contributes to improved relationships with workers.

As a focus group study conducted in 2011 by the National Democratic Institute (NDI) and Center for the Study of Democracy and Development (CEDE) demonstrated, Mozambicans have mixed feelings about the country's democratic institutions and their performance.

Although some citizens have the feeling that political parties are only following their own agendas and interests, they do not deny that parties facilitate the consolidation of democracy and enable healthy and peaceful competition. Citizens favor a

Interest groups  
4

Approval of  
democracy  
7

multiparty system, but prefer to elect the president directly. Most citizens expressed a wish to limit presidential terms to two mandates of five years. Citizens strongly believe in the electoral process, but are aware of the shortcomings in the last elections. All in all, Mozambican citizens approve of a democratic political system. The rising cost of living, increased levels of crime and ubiquitous corruption featured among participants' top concerns.

Especially in rural areas, a culture of obedience still prevails, ensuring that authorities and their performance are not directly challenged. Thus, any vocal demand for increased participatory rights can only be expected once a certain educational level has been reached and citizens become more fully aware of their rights.

An erosion of trust has been evident in Mozambique in recent years. On the local level, the high levels of crime jeopardize the well-being of many citizens, especially in rural areas. Confidence in state institutions has vanished, and the strength of intergenerational links has weakened. With urban poverty on the increase, it is important to look at the marginalized residents in the main urban centers, and particularly in the capital Maputo. Most coping strategies in these areas are characterized by a high degree of household and individual mobility and flexibility. However, the most important social relationships remain the extended family and other personal connections to friends and neighbors. Particularly in the urban context, reciprocity is becoming increasingly essential in defining relationships, putting a strain on those who remain without employment and income.

Where people are fighting for their daily survival, engagement in associations becomes of secondary importance. In Maputo, associational life also appears to be decreasing in importance for many citizens in the suburbs, which means individuals are less integrated into community activities and benefit less from informal networks.

Social capital

5

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Mozambique's development record is far from altogether positive. There is growing evidence that macroeconomic success has failed to deliver unambiguous socioeconomic benefits at the household level. Mozambique remains one of the poorest countries in the world. In the UNDP's 2011 Human Development Index, it is ranked 184th out of 187 countries, below so-called failed states such as Haiti (158), Afghanistan (172) and the Central African Republic (179). It is also increasingly recognized that Mozambique's growth has become less pro-poor over time, meaning that consumption-based poverty rates have remained persistently high. This is

Question  
ScoreSocioeconomic  
barriers

2

especially true in the rural sector, suggesting a widening urban-rural gap and upward pressure on income inequality. Social tensions have also been rising, spilling over into isolated incidences of unrest. This reflects concerns over the high cost of living in urban areas as well as a scarcity of good-quality employment opportunities.

The Mozambican economy's strong growth rates over the last two decades (an annual rate of approximately 7.2% for the last decade) have not managed to create a more inclusive society. On the contrary, the cleavage between the majority of the population living in rural areas (65-70%) and the developing urban middle class strata has widened. Per capita daily incomes in rural areas has even declined over the last decade, from MZN 10 (\$0.30) to MZN 4 (\$0.13). According to the most recent World Bank data available, gross national income (GNI) per capita is \$470. However, local statistics show that in rural areas, GNI per capita is as low as \$120, compared to \$1,100 for urban Mozambicans. Consequently, the Gini coefficient remains high, at 0.42.

Depending on the statistical method applied, data on Mozambique's poverty varies dramatically. According to government and World Bank data (2011), the percentage of the population living under the poverty line rose from 54.1% in 2003 to 54.7% in 2008. A moderate increase in rural poverty (from 55.3% to 56.9%) and a moderate reduction in urban poverty (from 51.5% to 49.6%) were noted in the third national poverty assessment in 2010.

The UNDP Multidimensional Poverty Index classifies 79.3% of the population, or 18.13 million of a total population of 23.93 million (2011), as being affected by severe poverty.

The exclusive focus on certain poverty indicators might be one reason for the government's incapability to address structural poverty in recent decades. However, FDI related to the ongoing megaprojects and coal exploitation, particularly in the Northern provinces of Tete and Nampula, is having some positive spillover effect despite criticism.

Mozambique may be on track to reach the Millennium Development Goal on poverty due to the increased consumption capability of urban households.

Agricultural productivity has shown very slow or even zero growth rates in recent years, and thus production of food crops has remained weak. In addition, climate-change-related weather shocks have harmed harvests, particularly within the central provinces.

In the area of education, public investment has continued to focus on expanding access, reducing gender inequalities, improving quality, and building overall

institutional capacity. The literacy rate remains low at 56%, although increases are evident among the younger generation, where literacy rates are around 65%.

While school enrollment rates are fairly equal between sexes, and more girls than boys continue to secondary education, the gender divide in the world of labor is quite wide.

Although women make up the majority of the economically active population, they are predominantly engaged in the agricultural sector, and generally in a household production context with limited surplus production. Particularly in rural areas, women face enormous obstacles in the realization of their work as a result of prevailing gender relations in rural communities.

Government-provided social services have become more common in the health care sector. The HIV epidemic, which is still expanding (if at a slower pace than previously), places a substantial burden on the health sector. The first national survey on HIV/AIDS in 2010 estimated the infection rate at 11.5%. However, there is significant geographical variation and disparities by sex and age. Among women, the infection rate is 13.1%. Young women in Mozambique are four times more likely to be HIV positive than are young men. Women also bear the main burden of care associated with HIV/AIDS.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	9674.0	9274.4	12568.4	<b>14587.7</b>
GDP growth	%	6.3	7.1	7.3	<b>7.4</b>
Inflation (CPI)	%	3.3	12.7	10.2	<b>1.1</b>
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	9.3	10.8	16.5	-
Export growth	%	-5.3	-8.5	4.2	-
Import growth	%	1.1	0.1	11.1	-
Current account balance	\$ M	-1246.0	-1523.2	-2996.2	<b>-5167.5</b>
Public debt	% of GDP	51.9	49.3	45.1	<b>46.6</b>
External debt	\$ M	4138.4	3734.1	4096.7	-
Total debt service	\$ M	40.5	87.5	57.0	-

Economic indicators		2009	2010	2011	2012
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	13.3	13.4	14.0	-
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	2.8	3.3	2.7	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.9	0.9	-	-

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

## 7 | Organization of the Market and Competition

Although Mozambique began transforming its economy in the late 1980s, introducing elements of a free-market economy, business procedures are still characterized by considerable red tape. The World Bank's 2013 Doing Business report noted deterioration compared to previous years. Currently, Mozambique is ranked 146th out of 185 countries, down from rank 139 in 2012.

While investment protection still ranks comparatively well, key elements such as property registration, obtaining construction permits (377 days) or even electricity connections (117 days) can take months on end.

Mozambique's economy has developed a dualistic character over the course of the last decade. On the one hand, the domestic economy rests largely in the hands of the ruling elites, which grant limited access to the sector and play by their own rules. However, international "islands," with their own sets of rules and standards (e.g., contract enforcement, security), have been created for megaprojects. The same elite has been responsible for these exclaves' creation, and benefit from them.

Although an appropriate legal framework for the provision of equal access and equal opportunities is in place, the way that concessions are granted by the government, the way private-public partnerships are formed and the granting of privileges and benefits all show an extensive ignorance of the normative framework for equality. According to Law 15/2011, public-private partnerships have to be formed on the basis of a public tender, and negotiated procedures or a direct award can be considered in only a few exceptional cases. However, the list of cases where the latter has become the rule and not the exception is long.

Market-based  
competition  
4

Market-based competition is hampered by nontransparent processes, the interpenetration of the political and economic spheres, dependence on donors and FDI, and a weak and dependent justice system. In the banking sector, 85% of financial assets are the hands of banks related to the Portuguese banking industry, again hampering the development of competition.

With the foreign exchange law that came into effect in 2011, exchange restrictions related to payments and transfers for international transactions were withdrawn. However, the law also introduced a compulsory repatriation of foreign earnings and an automatic conversion of 50% of export revenues into local currency. This obligation will certainly hinder private investment initiatives.

Another new law governing public-private partnerships, large-scale ventures and business concessions passed in August 2011 (Law No. 15/2011). It states that Mozambican persons should account for between 5% and 20% of the capital of all such undertakings.

Special regimes have been established in the Beluluane Industrial Free Zone in Maputo Province, and in the Nacala Special Economic Zone in Nampula Province. More so-called free zones are planned. The two existing zones allow exemptions from customs duties and value-added tax on imports of equipment and raw materials for use within the zones. Other benefits such as a reduced corporate income tax rate are available, although for limited durations. A special labor and immigration tax scheme is also available for use within these industrial free zones.

Today's state-owned enterprises have their origin in the socialist period directly following Mozambique's independence in 1975. The state-owned companies Telecomunicações de Moçambique (TDM), Aeroportos de Moçambique (ADM), Electricidade de Moçambique (EDM), and Portos e Caminhos de Ferro de Moçambique (CFM) have monopolies in their respective industries (landline telephones, airports, electricity, and railways). Some of these state-run enterprises benefit from state subsidies. The state is also actively involved in the operations of some of these enterprises.

In 2012, the Mozambican government has revealed plans to review its laws with respect to mergers and acquisitions of foreign companies that own assets in the country. With the new legislation, the government intends to increase the state's involvement in the mining sector, hoping to increase revenues and ensure that the state has a major stake in so-called strategic projects. Thus, any regulatory intervention by the state is less directed at safeguarding market competition than at strengthening state or elite control.

Anti-monopoly  
policy  
2

Since 2001, Mozambique has taken steps to liberalize its trade regime by lowering its maximum tariff rates and improving its investment regime. Especially for foreign direct investors, attractive exemptions from the standard corporate income tax rate (32%) have been introduced. For example, tax-free-zone operators and enterprises in industrial zones enjoy full tax exemption in the first 10 years, a 50% reduction for another five years, and a 25% break for the remaining years of the project.

Liberalization of  
foreign trade

6

Despite the establishment of the Southern African Development Community (SADC) Free Trade Zone in 2008, tariff barriers among its members have not disappeared. The volume of intraregional trade remains low at 19% of GDP. Due to insufficient border controls, price levels between the formal and informal sectors of the economy diverge substantially, interfering with initiatives to enhance official trade. Considerable hope in this regard is being placed in the introduction of an electronic customs and trade facilitation system (Janela Única Electrónica, JUE) and electronic taxing system (e-tributação).

In the World Economic Forum's Global Enabling Trade Report 2012, which evaluate trade environments, Mozambique slid from its 2010 ranking of 93rd place to 97th place out of 132 countries. Although market access as such is unproblematic (position 31), inefficient import-export procedures, insufficient transport infrastructure and services, a poor regulatory environment, and physical security problems contributed to the decline.

Mozambique's export base remains narrow despite the increase in coal mining, which by 2018 is projected to overtake aluminum as the country's main export good. The country's exports are mainly directed toward Europe (54%). Mozambique enjoys preferential access to European markets under an economic partnership agreement (EPA) signed in 2009. It has concluded bilateral agreements with Malawi and Zimbabwe to enforce rules of origin.

Mozambique has one of the smallest banking sectors for a country of its size on the African continent. According to the Bank of Mozambique, about 1 million Mozambicans currently possess bank accounts, out of a total population of 23 million. This is one of the lowest rates in Africa. Mobile banking has yet to take off in Mozambique to the same extent as in other parts of the continent. In 2012, 461 bank branches in 58 districts were operating in the country; this left 70 districts without access to banking services. The government has provided funding for the expansion of retail bank networks and micro-finance institutions via the Fund for Support for Economic Rehabilitation (FARE). The Mozambican banking sector as a whole remains undercapitalized. With the country's three largest banks closely linked to the Portuguese banking industry, the sector risks being affected by the spillover effects of the Portuguese economic crisis.

Banking system

7

The share of non-performing loans remains stable at 2%. Nevertheless, the Bank of Mozambique and the Confederation of Economic Associations of Mozambique (CTA) announced plans in June 2012 to set up a credit risk center to share information on customer credit. By creating improved intelligence on credit risk, it is hoped that banks and other financial institutions will be able to offer lower interest rates to suitable customers. The central bank has started the transition to risk-based Basel II standards. Its supervisory ability has improved with the completion of a banking-crisis-resolution framework. However, more work remains to be done by the government in terms of developing rules for closing and liquidating banks, managing bidding processes for private-sector takeovers, and overseeing cases necessitating temporary public ownership or emergency liquidity assistance.

During the period under review, the government passed several measures aimed at encouraging domestic growth and foreign confidence in the banking industry. In March 2012, the government approved the revision of its 2002 legislation on combating money laundering and terror finance. This is part of a broader strategy in a fight against money laundering, and comprises four pillars: legislation, an organic reorganization of institutions, technical training for personnel, and international cooperation.

## 8 | Currency and Price Stability

Lower food and fuel prices in the last two years were related to the tight monetary policy pursued by the Central Bank of Mozambique. This aimed to absorb excess liquidity and hold core inflation to single digits. The appreciation of the metical against the South African rand contributed to exert a downward pressure on inflation. For much of 2012, Mozambique in fact experienced deflation – for five of the 12 months, the average price level fell. According to the National Institute for Statistics, the January – December inflation figure, as measured by the consumer price indices for the three largest cities, Maputo, Beira and Nampula, was 2.02% in 2012. This is the lowest annual inflation figure since the introduction of structural adjustment measures in January 1987. However, this monetary policy has also been detrimental for private-sector credit growth, which will ultimately be fundamental in order to create job-generating private-sector growth.

In 2012, the Mozambican government reiterated its commitment to maintaining a flexible exchange-rate regime. To this effect, it allowed the exchange rate to adjust freely to evolving patterns of trade and financial flows. In fact, the national currency has since 2010 been on an appreciating trend, appreciating against the euro by 34%. Interest rate increases aimed at fighting inflation and strong FDI flows have driven this trend. FDI inflows peaked in 2011 at \$2 billion (compared to an annual average of \$800 million in past years). In August 2011, the central bank began to relax its monetary policy, cutting interest rates. Nevertheless, the metical has remained strong

Anti-inflation /  
forex policy

8

against other important currencies (euro, dollar, South African rand), thus undermining the international competitiveness of Mozambique's domestic products.

One of the biggest challenges faced by the Mozambican government in coming years will be the expansion of the country's fiscal base. Internal revenue generation must be increased, while the country's dependence on foreign loans and grants must be reduced. These latter sources of income still account for about 40% of the state's budget. Any improvement in fiscal revenue will require an enhanced efficiency in revenue collection, as well as a renegotiation of megaprojects' contracts. At the moment, revenues derived from megaproject operators account for an average of 5% of the government's income, but this share could rise as high as 30% under a revised tax regime. International donors are pressing for reforms with the objective of a more inclusive growth, a goal that these megaprojects have to date failed to achieve. These reforms are given urgency by the prospect of reduced official development assistance (ODA) flows (e.g., the Netherlands will halt its budget support in 2013), a trend that threatens to increase over time.

Macrostability

7

Foreign direct investment in the natural resource sector (especially coal and gas) has resulted in rapid import growth. However, Mozambican authorities have continued to accumulate international reserves thanks to strong exports and capital inflows in 2012. Mozambique's net international reserves (NIR) continued to strengthen during the period under review. Gross reserves were projected to cover to 3.6 months of projected total imports (or 5.5 months of projected non-megaproject imports) by the close of 2012. In general, reserves were kept in line with targets, helping to achieve the deflationary objective.

Substantial historical data revisions and new information on FDI (and related imports) in the natural gas sector resulted in an upward revision of the 2011 current account deficit after grants from 13.3% to 25.8% of GDP. According to assumptions by the IMF in its 5th Policy Review Instrument (PSI), the external current account deficit could reach nearly 41% of GDP by 2014.

In general, the Mozambican government has sought to maintain fiscal prudence by enhancing revenue collection and by adhering to spending commitments made in its Poverty Reduction Strategy Paper (PARP). However, the implementation of pro-poor measures prepared during 2011, coupled with an ambitious infrastructure-investment program will continue to widen the fiscal deficit. In fact, the Mozambican government has embarked on a challenging balancing act in its attempt to reconcile fiscal and development policies. Priority areas for the 2013 budget will entail containment of the public-sector wage bill (to roughly 10% of GDP), a reduction in fuel subsidies, and an enhancement of the social-protection program. In addition, the government has plans to bolster public-investment programs so as to further develop the desperately needed infrastructure for economic growth.

With ongoing expansion of mining (particularly in the coal industry), exploration programs in the natural gas sector and strong exports, IMF projections show that the pace of public external debt amortization could increase significantly, from around \$50 million in 2011 to around \$250 million by 2017.

## 9 | Private Property

In its Article 82, the Mozambican constitution guarantees property rights and their protection by the state. Expropriation is allowed when deemed absolutely necessary for reasons of national interest or public health and order. The nationalization or expropriation of goods and rights entitles the owner to a just and equitable compensation.

Property rights  
4

Irrespective of the property rights enshrined in the constitution, ownership of land remains the exclusive right of the state (Lei de Terras, 19/1997). The government grants land-use concessions for periods of up to 50 years, with options to renew, called Direitos de Uso e Aproveitamento de Terra (DUAT). Essentially, land-use concessions serve as proxies for land titles; however, they are not allowed to be used as collateral. In consequence, the Mozambican banking sector uses property other than land, such as cars, private houses and infrastructure, as collateral.

The (non-)ownership of land remains one of Mozambique's most disputed and problematic issues. De facto, benefits accompanying the utilization of land accrue to the elite, while the poor are left without security. Although no sale of land titles is possible de jure, even state institutions engage in transactions in fact. In the International Property Rights Index (2012), Mozambique is ranked last in the category that concerns physical property rights (registering property, access to loans, protection of physical property rights), and is ranked 112th out of 130 overall. The protection of intellectual property rights also remains problematic. In evaluations of the country's legal and political environment, factors such as the rule of law, political stability, judicial independence and corruption are decisive in producing a negative assessment.

To date, Mozambique's privatization program has been relatively transparent, with open and competitive tendering procedures in which both foreign and domestic investors have participated. However, the involvement of local elites and particularly high-ranking members of the ruling FRELIMO party remains common. Most remaining parastatal enterprises are public utilities, making their privatization more politically sensitive. While the government has indicated an intention to integrate private companies into most of these utility industries, progress has been slow.

Private enterprise  
7

The Arbitration, Conciliation and Mediation Law, passed in 1999, allows for modern means of dispute settlement in addition to the more usual recourse to the judicial or

administrative courts under the civil procedure law (dating from 1966, with considerable amendment). However, when parties have not previously agreed to go to arbitration in the case of dispute, or where the law itself requires otherwise, parties require substantial amount of stamina to go through the regular court procedures.

## 10 | Welfare Regime

In 2007, the Mozambican government opened a new phase in its social-protection policy, with a new law establishing a three-pillar structure in the formal social-safety net. These pillars include: compulsory social security for employees in the public and private sectors (managed by the Ministry of Labor and the Finance Ministry for public servants); a basic social security program for society's poorest and most vulnerable (managed by the Ministry for Women and Social Action); and a complementary social security program for those workers who are already members of the compulsory social security program (both for public- and private-sector workers and the self-employed). This third pillar is intended for those who want to reinforce their social security coverage, and is managed by private sector.

Social safety nets  
3

However, it took the government almost two years to pass the implementing regulation for the basic social-security subsystem. Another year followed before a 2010 Ministerial Council Resolution put in place a National Strategy for Basic Social Services (2010 – 2014).

As it exists today, the social-security system covers only the formal economy, thus leaving out the bulk of the population. Less than 5% of Mozambique's economically active population is estimated to be reached by the state's social-protection policy.

In addition, the program in place has been subject to various funds-distribution scandals, as well as suffering from grave systemic weaknesses. The elderly in particular suffer, as the current mechanism is focused on urban areas. In addition, the amount of money provided (MZN 450 or €1 per month) is insufficient to cover living costs in urban Mozambique. In reality it means that approximately 80% of the 1.8 million elderly people have to survive on less than \$1 a day.

The formal social-security system's fragmentation, as well as the various initiatives' lack of complementarity (including the lack of a common database), represents another significant weakness.

Although the Mozambican government has sought to improve its social security system (aiming to increase the number of beneficiaries from 390,000 in 2012 to 950,000 in 2014), the main social safety net for the majority of Mozambicans remains family- and community-based. These relations differ according to the situation.

Community solidarity is most common in rural environments, while in urban areas there is more individualism, and social exclusion is therefore more visible.

Although gender inequalities related to educational access have fallen in recent years (47% of girls from a given age cohort attend primary schools, with 42% going on to secondary schools), the underrepresentation of women persists. This is later reflected in public sector employment, as well as in the education sector itself. Provincial asymmetries indicating the impact of poverty on the equality of opportunity remain striking. Whereas about 52% of girls in the southern provinces have the ability to attend secondary schools, this percentage is only around 39% in northern provinces such as Zambezia or Nampula. Hindering factors include early marriages, girls' household workloads, and the sexual harassment that about 70% of girls are exposed to by their male teachers.

Equal opportunity  
5

In 2012, the number of criminal assaults on members of faith-based organizations (such as the assassination of a Catholic priest in Maputo) increased, affecting adherents of Christian as well as Muslim religions. The Mozambican government, which has long stressed the laic character of the state, surrendered in August 2012 to the pressure of the Muslim community, which had opposed a governmental regulation limiting the wearing of veils and burkas in public schools to the month of Ramadan. Motivated also by forthcoming elections, the government revoked its own decision just one day after the regulation came into force.

Since the Guebuza government came to power, public-sector employment opportunities have depended more on party affiliation than on gender, ethnic or religious reasons factors. Even at the university level, it has become clear to students that future career opportunities will largely depend on developing a FRELIMO affiliation.

## 11 | Economic Performance

Mozambique's economic performance is characterized by extremes, due to the coexistence of megaprojects on the one hand and the structure of an underdeveloped, mainly agrarian economy on the other.

Output strength  
7

High FDI flows related to the large coal mining projects in the northern provinces, together with significant infrastructure investment, contributed to an impressive average growth rate of 7.5% of GDP in 2012. It is clear that the large natural-resources investments will ultimately transform Mozambique's economy in the medium term. The Brazilian company Vale, which has already invested \$1.7 billion in the Moatize opencast mining project in Tete province, announced in 2012 that it would expand its investment by an additional \$6 billion. This sum will cover the establishment of much-needed transport infrastructure, particularly the rehabilitation

and expansion of railway linkages. Overall, the government granted 112 licenses to 45 national and foreign companies between 2010 and 2012. Inflation has been kept at bay by prudent monetary and fiscal policies. However, the government's attempt to address the high rate of unemployment (27%) and informal-sector employment through the ambitious implementation of pro-poor measures and public-sector infrastructure-investment programs will expand the fiscal deficit from 3.3% of GDP in 2011 to approximately 7.4% in 2013. High-priority sectors such as agricultural production, employment by small and medium-sized enterprises (SMEs), and human and social development currently account for 66.7% of the national state budget.

According to the IMF's debt sustainability analysis, the country's debt indicators remain below the benchmark thresholds, indicating a low risk of debt distress. External debt is expected to increase from \$2 billion in 2010 to \$4.2 billion in 2013. Its present value will remain below 30% of GDP, and debt service will represent roughly 5% of exports in 2013.

## 12 | Sustainability

Although Mozambique has an excellent track record in terms of climate-change adaptation measures, and the policies put in place by its Instituto Nacional de Gestão de Calamidades certainly can be presented as best practices, its overall environmental-policy performance remains modest. Thus, Mozambique ranks among other low-scoring countries such as the Democratic Republic of the Congo (DRC) or Cameroon. In its agricultural policy, environmental sustainability aspects are not taken into consideration, and its environmental health results are particularly bad.

Mozambique is one of the eight pilot-project countries for the U.N. Delivering as One program, which is seeking to ensure that environmental issues are taken into consideration in development planning. The country's legislation and policymaking in the environmental field are of reasonable quality. The government appears to be aware of the importance of natural resources, and includes aspects of environmental and climate-change challenges in its Poverty Reduction Strategy Paper (PARP). However, implementation and monitoring are weak and uncoordinated.

The weak institutional capacity in general and of the Ministry for Environmental Affairs (MICOA) in particular poses the risk of uncoordinated efforts, low-quality policy implementation and a lack of environmental safeguards, particularly when foreign investments are at issue. The atmospheric pollution of Maputo's suburbs by the MOZAL aluminum smelter is only one of many examples.

Mozambique is striving to make productive use of its natural resources in order to enhance economic growth and reduce poverty. This requires a delicate balance between short-term economic growth and social and environmental safeguards.

Environmental  
policy  
4

Mozambique's education system, which in the past 20 years has been forced to address the impact of decades of civil war and a very low adult-education level, primarily focused during the period under review on expanding supply and enrollment levels. In 2012, 41.1% of government expenditure went into the education sector. The focus remains for now on primary education, and the 2012 – 2016 Strategic Plan for Education continues to place its emphasis on creating universal access to primary schools. However, systemic weaknesses are having an effect on education output. Completion rates are falling, and are worst in secondary schools, where only 7% of students go on to complete 12th grade. But even at grade five, only 63% finish. The quality of teaching is a decisive factor here. There is a chronic lack of qualified teachers with the necessary didactical and pedagogical competences (only 8,500 teachers were hired in 2012, well under the projected need of 15,000). The teacher/pupil ratio remains high, at 58 pupils per instructor, although this has improved from more than 60 pupils per class in 2009.

The Barómetro da Educação Básica em Moçambique survey conducted by the Instituto de Investigação Social e Educacional (ISOED) in 2012 highlighted students' deficient cognitive skills, and mainly blamed the political framework for the education system's failures. Although visionary policies have been developed, the statistics bear sobering witness to the system's ongoing weaknesses. The training of teachers remains a particular point of neglect.

For 2013, 18.6% of state budget has been reserved for the education sector; while this sounds like an impressive contribution, a look at donor involvement in the sector shows that education in Mozambique largely remains dependent on foreign funding. Donor assistance accounted for 35.4% of the total education budget, and was in this respect considerably above the sub-Saharan Africa average (23.1%).

About 100,000 students are enrolled at tertiary education institutions throughout the country. Given Mozambique's population of 23.9 million in 2011, the 0.42% of the population attending higher academic schooling is substantially below the African average of 5.4%. Prestigious universities as such do not exist, and those who can afford tend to travel to South Africa, Europe or the United States for tertiary schooling.

Although scientific research remains limited and does not exist at all in many areas, an intellectual urban elite has developed over the last decade that influences the sociopolitical and cultural discussions.

Education policy /  
R&D  
3

# Transformation Management

## I. Level of Difficulty

Mozambique's development prospects face multiple structural constraints. The high poverty rate, which has even increased in recent years, constitutes a continuous challenge. According to government and World Bank data (2011), the percentage of the population living under the poverty line of about \$0.65 (MZN 18) per day rose from 54.1% in 2003 to 54.7% in 2008. Gross national income per capita (on a PPP basis) was \$970 in 2011. The slight increase (though still on a still very low level) from \$770 in 2008 can be mainly attributed to the reduction of urban poverty with the development of a middle class in Mozambican urban society. The broader stagnation in terms of poverty rates over the past six years is largely due to the failure to generate employment or to increase productivity in the agricultural sector.

Structural  
constraints

8

In addition, these rising poverty levels come as international donors are planning cuts in their budgetary support; this will further limit the Mozambican government's capacity to continue its previous level of service delivery.

Mozambique's adult population has among the BTI's lowest education levels, with an average of just 1.2 years of formal schooling. Though education is improving and the government has made substantial efforts to increase school attendance rates, current policies have in fact lowered the quality of education by curtailing the requirements needed to become a teacher. Low labor-force skill levels are a constant challenge for employers, particularly in high-value investment projects. Some foreign companies have even resorted to importing skilled labor. The government, seeking to bring more Mozambicans into the formal labor market, has responded by introducing quotas for foreign workers (10% for SMEs; 5% for megaprojects).

In terms of geography, Mozambique enjoys a privileged and strategic location. For landlocked neighbors such as Zimbabwe, Zambia and Malawi, it represents the natural exit to the sea, and east-west transport corridors cater to those needs. In the past decade, Mozambique has expended around 10% of its GDP on infrastructure development, a comparatively high amount relative to other African countries. However, this share is less than half of what is in fact needed to meet projected demand (approximately 26% of GDP). While the power supply infrastructure also requires upgrading, the primary current challenges remain in the transport sector.

Most transit corridors connect the mining and key production centers to ports, but connections between urban and economic clusters on a north-south axis remain underdeveloped. The only major north-south connection is the rehabilitated N1.

Due to its geographical location, regional waterways and the country's extensive coastline, Mozambique is prone to natural disasters. However, particularly after the disastrous floods in 2000, the government developed the capacity of the National Institute for Disaster Management and quite successfully implemented community-embedded strategies that enhanced the population's resilience.

Approximately 11.3% of the adult population in Mozambique is infected with the HIV/AIDS virus. The epidemic is largely a consequence of unprotected sex. Due to laudable informational campaigns and awareness-raising over the last decade, the rate of new infections is on the decline. Traditional customs in rural areas still provide an obstacle, as relevant issues are taboo to discuss.

Given the FRELIMO party's dominance, few genuinely independent civil society organizations exist. Many existing NGOs either trace their descent directly from the erstwhile socialist mass organizations or are satellites of the party. These latter have been established in order to generate government-loyal CSO voices that compete for foreign funding with independent groups.

Civil society  
traditions

7

Many community-based organizations or regional associations (typically calling themselves friends of a certain province or region) have developed over the course of recent decades. These groups have often become substitute providers of services typically offered by states in more developed countries.

Although the country has no open religious conflicts, the leadership of the Christian churches and the Muslim Council underline the need for interfaith dialogue as an element in the stabilization of social peace. According to these religious leaders, the lack of a mature democratic culture on all levels of society provides an element of volatility easily exploitable by political forces.

Conflict intensity

4

Fortunately, no such exploitation has yet taken place, and political parties for the most part respect ethnic and religious identities and try to promote tolerance. The notable exception to this behavior has been RENAMO leader Afonso Dhlakama, who has repeatedly threatened to divide the country along the river Save, justifying this as a correction of the alleged dominance of southern ethnic groups within the FRELIMO government. However, given the economic boom in central and northern provinces such as Tete or Nampula, and a FRELIMO president who himself comes from Nampula, this contention looks increasingly shaky.

The most recent election results have indicated that political affiliations in the opposition camp are weakening. What was essentially a two-party system in 1999, with strong identities and affiliations with either FRELIMO or RENAMO, has been

transformed into a single-party system. Members of FRELIMO join the party driven by personal and practical motivations (e.g., career prospects), whereas support for the opposition derives mainly from an anti-FRELIMO feeling rather than any identification with RENAMO's proposed policies.

Disappointment with FRELIMO policies and its governing style has also been a motivating factor for recent large-scale riots (2008, 2010), which for the first time since the end of the civil war played out violently.

## II. Management Performance

### 14 | Steering Capability

The Mozambican government promotes a free-market economy and successfully attracts foreign investors. Job creation and employment in the formal economy are identified as key priorities in the government's strategic documents, the five-year plan (2010 – 2014), the Action Plan for Reducing Poverty (2011 – 2014) and the Urban Poverty Reduction Strategy (2010 – 2014).

It was mainly as a reaction to the 2010 riots that the government restructured its development agenda in the PARP, focusing on increased agricultural production and the promotion of employment. It strengthened social safety nets by expanding cash-transfer mechanisms for the most vulnerable groups. In addition, it maintained subsidies for urban public transportation and continued with public works programs.

The Economic and Social Plan (ESP) is an essential element in orienting the annual state budget, as it underlines the key areas for government and donor engagement, including education, health, agriculture, infrastructure, professional training, and science and technology. In 2012, 66.7% of the state budget was allocated to these top-priority sectors. In the 2013 budget, top priority is given mainly to infrastructure development across all sectors, particularly through the construction of schools, sewage plants, roads, electricity plants and housing. Although strategic documents identify essentially the same multiple areas as high-priority areas, no clear prioritization within these items can be identified. However, the much-needed development of the formal economy beyond the sphere of the megaprojects has seemed to lack attention amidst other initiatives. Although the agriculture sector accounts for 24% of GDP, Mozambique still has the lowest agricultural technology level in sub-Saharan Africa. With the aim of boosting its agricultural sector, Mozambique did commit in 2012 to the G-8's New Alliance for Food Security and Nutrition.

Question  
Score

Prioritization  
7

The government's effectiveness in implementing its own policies varies by sector. In the realm of monetary and fiscal policy, implementation has been quite successful, although the government certainly could enhance revenue collection. Overall macroeconomic growth rates represent one success story, but have masked a widening income gap and the development of social imbalances.

Implementation  
6

In its aim to promote inclusive growth, the government has launched a series of initiatives and overhauled its social protection programs. However, quite often, administrative capacity and a lack of coordination between various ministries produce obstacles to the successful implementation of these programs.

In addition, national plans must be broken down into sector policies with concrete strategies, action plans and monitoring measures.

The political will to engage in reform is amply demonstrated by the diversity of initiatives launched. However, reforms quite often fall short on the implementation side, and coherence between reform initiatives can be poor.

The Mozambican government has proven in the past that it can react flexibly under pressure. For example, this was demonstrated after international donor-community budget support was frozen in response to the 2009 electoral process and government discrimination against the MDM opposition party. Similarly, swift reactions to the riots in 2008 and 2010 showed the capability to learn.

Policy learning  
6

The government's development of strong national capacities in the area of disaster-risk reduction, as well as in cooperation with international experts, demonstrate that learning capacity is strong when it comes to technical governance aspects. The government has also reacted to the changing economic context, and has revised its tax legislation to adapt to the fiscal characteristics of natural-resource projects.

Flexibility with respect to good-governance appears to be more problematic. Here, where particular elite interests are at stake, reforms have taken place slowly, often trying the patience of international donors.

## 15 | Resource Efficiency

According to the 2007 census, the Mozambican state had 169,701 public servants, a large share of which were employed as teachers. Given the rate of new hiring in the state administration (in 2012 alone, 13,000 new public servants were employed), this number could be as high as 200,000 public servants today. Public employees' low level of education is a concern, as 24.2% have only a basic education or less, while 8.49% have attained a superior education level (2007 census). In the last decade, government has initiated a comprehensive state-administrative reform. This has had the partial aim of bringing public services closer to the people, but has also sought to

Efficient use of  
assets  
4

enhance service quality by improving public servants' skill levels. In addition, the introduction of the public probity law (November 2012) and the establishment of a national public ethics commission is intended to bring more accountability to the sector. For example, holding two jobs within the public sector is now prohibited.

Budget allocations correspond with the priorities set in the main policy-strategy documents. In 2012, for example, infrastructure development received the biggest chunk of the budget (MZN 5.8 billion out of a total budget of MZN 163 billion); followed by agriculture (MZN 1.8 billion) and education (MZN 1.1 billion). In 2012, 49% of state budget resources were applied to paying state administrative employees.

There is no oversight of budget planning and execution. Parliament does not have the capacity to monitor public finances, and civil society lacks both the capacity and access to information necessary to monitor public spending from the outside. For most members of parliament and civil society, state revenues from megaprojects or the extractive industries, account balances, and the details of state treasury operations are effectively unknown. Interpretation and explanation are left to public servants.

Although governmental representatives have given rhetorical support to decentralization, the reality remains far from what could be understood as decentralized governance structures. What has been promoted by President Guebuza in recent years is rather a deconcentration of power, which has been paired with a further extension and strengthening of party structures on the local level as an advantageous side effect. Delegating state representatives to act alongside elected municipal representatives means that already-scarce resources are absorbed by parallel institutions, and the potential for conflict has been increased. Nevertheless, despite a chronic lack of financial, human and material resources, municipalities' service-delivery capacities have slowly progressed in recent years. A comprehensive evaluation of the first 10 years of municipal development, conducted by the World Bank and the Associação Nacional dos Municípios Moçambicanos (ANAMM), took note of this in 2009. Nevertheless, complex and conflict-producing issues such as land use, environmental protection, justice and local-level governance remain high on the policy agenda.

Conflicting objectives are particularly visible on the macroeconomic level, where the government has sought to attract FDI while at the same time aiming to expand and consolidate its tax-revenue base. In this realm, the government has to strike a balance between revenue generation and the need to provide a stable investment climate. Tax rates for megaprojects are currently under discussion, and likely outcomes are not clear. However, it is to be expected that planned budgetary-support cuts by donors will force the Mozambican government to tighten its currently quite favorable tax policies for foreign investment in megaprojects.

Policy  
coordination  
6

The coherence of policies in general is strained by the plethora of donors, each with their own interests, as well as of working groups associated with sector-level budgetary support. These latter groups, the result of the Accra Agenda for Aid Effectiveness, have not been as successful as hoped, as ministerial capacities are insufficient to steer a donor harmonization and division of labor.

According to sources such as the U.S. Department of State (2012) and the Heritage Foundation's 2013 Economic Freedom Index, corruption remains a widespread phenomenon in Mozambique on all levels and across sectors. Despite comprehensive public-sector reforms, the passage of legislation to combat corruption, and the establishment of various anti-corruption bodies on the national and provincial levels, the control of corruption in Mozambique has only slightly improved.

A more comprehensive package of anti-corruption bills was approved by the Council of Ministers in 2012 and debated in parliament. Some of the many highlights of the new bill include a law on asset disclosure, a law governing the ethical behavior of public servants, and a law governing conflicts of interest for public officials. The conflict-of-interest provisions may affect senior parliamentarians who hold both parliamentary office and senior executive positions in state-owned companies. Donor governments strongly urged the government to approve the draft laws in 2012.

The problem in fighting corruption echoes difficulties in other areas of Mozambican politics. The legislative context may be appropriate, but the lack of political will, resources and capacity impede implementation. The dominance exerted by the ruling party and President Guebuza weakens institutional checks and balances, and undermines any monitoring by the parliament, civil society or the media.

The perception of ordinary citizens underlines the impression that corruption has increased in recent years. In the 2010 – 2011 Global Corruption Barometer, a total of 56% of Mozambican respondents identified the issue as a concern. The police and the public administration are still seen as the most corrupt public institutions, and 41% of citizens consider the government's fight against corruption to be ineffective. Impunity and a weak and corrupt judicial system susceptible to influence by politicians, wealthy business people and criminal syndicates are both aspects of the problem, to the point of provoking Attorney-General Augusto Paulino to call for a purification of his own institution's ranks.

## 16 | Consensus-Building

The current leadership is focused on establishing a political framework that is both conducive to the country's socioeconomic development and to the interests of Mozambican business, much of which is in the hands of the FRELIMO nomenklatura.

Anti-corruption  
policy

3

Consensus on goals

6

Market-economic principles are endorsed by all political actors, including the opposition. Democracy is part of the donor canon and therefore forms part of the government's rhetoric. However, as the last elections demonstrated, if the government feels itself to be under pressure, it does not shrink from tampering with the democratic framework so as to safeguard its grip on power. Internal party structures show a varying degree of adherence to democratic values. Here, FRELIMO perhaps has the most advanced system, given the rather autocratic leadership style of Afonso Dhlakama and a family-based structure in the newly established MDM. Although party congresses are rather secretive and decision-making processes are not clear, FRELIMO party congresses are at least held regularly, and the party has shown that it exercises influence independent of its leadership (e.g., in the discussion of a third term for President Chissano in 2001).

In the Mozambican context, discussing reforms that have implemented by the government means reforms that have been sanctioned by the FRELIMO leadership. Moreover, the reform agenda today is dominated by socioeconomic objectives rather than by any desire to enhance the country's democratic structures and processes. For example, although the electoral-law package gained sufficient support for passage, the controversial issue of politicization of the Electoral Commission remained unresolved by the close of 2012.

Anti-democratic  
actors

4

The FRELIMO party congress in Pemba in 2012 provided an illuminating look at party-personality dynamics as they relate to political reform.

Firstly, FRELIMO as a party has a tradition of a highly secretive and centralized organizational culture. Considerable importance is placed on following the instructions of the hierarchy, as repeated purges of those who have failed to follow orders have demonstrated in the past. Governmental positions are no guarantee against marginalization within the party; and without party support, those positions cannot last. Party discipline serves as the primary guide to behavior, and the last word remains with the president.

Currently, the party is dominated by a wing that prioritizes socioeconomic interests associated with personal benefits. It does not appear that any reformist group promoting good governance, transparency in the extractive industry sector or accountability will be able to establish itself as a rival power center in the short term.

FRELIMO was initially created as a national liberation movement. RENAMO drew its support mainly from the social and political cleavages within FRELIMO during the struggle for independence, while following same nationalist framework. After the war, these war-induced cleavages became a driving force behind the development of Mozambique's two-party system, manifesting as south versus center, the ethnic Shangaan versus the Ndaou, and the centralized socialist state versus traditional rural authorities. Yet though these cleavages played out in the party system, they were

Cleavage /  
conflict  
management

6

never institutionalized in the post-war political structure. When Mozambique started its fast economic growth, and an internal power transfer within FRELIMO resulted in a president from the north, the regional cleavage gave way to more socioeconomically defined cleavages within society. In addition, by granting traditional authorities official status and by engaging in a decentralization process, the government has also managed to come to grips with the center vs. periphery, traditional-rural vs. modern-urban divide.

The ruling FRELIMO party and thus the current political leadership certainly draw their legitimacy from their history as a liberation movement, and as the figures that brought peace to the country after decades of civil war. The fact that the ruling party can mobilize all segments of society and claims to be inclusive from left to right makes it difficult for opposition parties to exploit existing cleavages to find a social basis for their own support. It currently seems that the main societal cleavage occurs around the urban youth. Neither the well-educated but unemployed youth nor the young urban dropouts identify with FRELIMO and its clientelist character. Opposition parties such as MDM were able to mobilize many university students in the 2009 elections, but proved unable to deliver and or to maintain their contact with this important constituency following the elections. Therefore, it will be interesting to see whether MDM will be able to mobilize this segment of society in the coming elections.

Although an ongoing dialogue between policymakers and civil society does exist, it cannot be considered strong, frank or open. Only as a result of international-community support has civil society recently been able to engage in the political process on two levels: in drafting and monitoring the poverty reduction programs, and in the revision of the electoral law.

Civil society  
participation  
5

Civil society's involvement in defining the priorities of the Poverty Reduction Action Plan (PARP 2011 – 2014) has been a government-led process. To support monitoring, the government established the Observatório do Desenvolvimento (OD), where CSOs have the opportunity to present independent reports. Civil society groups also have the ability to participate in the joint revision conducted every year by the donors that support the state budget and the government. In this case, CSOs can observe, but intervention is possible only by working through the donors.

The revision of the electoral law package in 2011 and 2012 a rare example in which parliament drew on expertise made available through an EU-funded project, and in which experts were finally invited to consult with members of a lawmaking commission. However, cases in which civil society is able to influence legislative drafts are quite rare and clearly necessitate external backing.

Civil society group's weaknesses in terms of advocacy, lobbying and monitoring on the national level largely relate to their lack of independence and the predominance

of FRELIMO party structures and influence throughout society. On the local level, spheres of influence are better institutionalized.

Mozambique has never established an entity similar to neighboring South Africa's Truth and Reconciliation Commission. Authorities have developed no specific policy to deal with the abuses and crimes perpetrated during the civil war. Victims have been urged to forgive and forget the past as a supposed element of peace-building and national reconciliation. According to former President Joaquim Chissano, the reconciliation mainly took place within the population rather than between the two belligerent parties. Transitional justice initiatives after the civil war took place mainly on the local level, and were quite often related solely to trauma counseling and reinsertion programs for child soldiers. Under U.N. auspices, RENAMO militants were integrated into the new Mozambican Defense Forces, a process which went more or less smoothly, although these newcomers continued to face discrimination and marginalization.

Although many RENAMO fighters did not wish to stay in uniform in 1992, their leader claimed in 2012 – 20 years after the signing of the peace accords – that these former combatants must still be integrated into the Defense Forces and should receive the related social benefits.

## 17 | International Cooperation

Mozambique enjoys broad support within the international donor community for its middle- and long-term development strategies. In their 2009 memorandum of understanding, the government and the so-called program aid partners (PAPs) agreed that the government's performance would be assessed on the basis of a multiannual matrix of priority targets and indicators (Performance Assessment Framework, or PAF) based on the Poverty Reduction Action Plan (PARP 2011 – 2014). This annual review is aimed at determining the flow of funds and identifying key priorities. However, politicking related to the assessment, particularly to the quality and valuation of indicators, has made the exercise a cumbersome process in the past. Government representatives have often delayed the process by providing the wrong or insufficient data, thus leading to flawed evaluations. This in turn has detrimental effects in terms of identifying correct strategies and setting correct priorities. When assessment of progress is based on false data, the resulting policies are unable to have the desired impact on poverty alleviation and development.

Mozambique has earned a reputation for being a reliable partner since the end of its civil war. It is strongly anchored in the international community and is active member of various international and regional organizations (including The Commonwealth and the Organization of the Islamic Conference).

Reconciliation  
3

Effective use of  
support  
6

Credibility  
7

Since joining the African, Caribbean and Pacific Group of States (ACP) in 1984, Mozambique has had a strong relationship with Europe. It has supported the implementation of the Joint Africa-EU strategy (JAES) in the partnership areas of good governance, peace and security, trade, regional integration and continental inter-connectivity. Along with other Southern African Development Community (SADC) countries, Mozambique is currently negotiating economic partnership agreements (EPAs) with the European Union, but has hesitated to begin implementation, as crucial issues remain pending in the negotiations.

Mozambique has contributed to the African Union peacekeeping mission in Burundi.

The country's foreign affairs are dominated by relations with the international donor community, which has focused closely on Mozambique over the last decade. The group of 19 donors that provide general budget support (known as the G-19 group) has become an important and influential body in Mozambican politics. To some extent, the government appears to be far more accountable to donors than it is to its own civil society. A first serious disagreement with this group came after the 2009 elections, when the standards of the electoral process were heavily criticized; budget support was afterward suspended. Donors have by and large remained patient, though in times of tighter ODA budgets, this patience may soon run short. The electoral process for the next local elections in 2013, as well as for the 2014 national elections, will be decisive in this regard.

Mozambique is fully integrated into the SADC, and regards itself as one of the major catalysts for regional integration. Mozambicans hold leading positions within the SADC structure (e.g., Tomaz Salomão has been secretary general since 2005).

Regional  
cooperation  
9

Relations with Malawi soured during the presidency of Bingu Wa Mutharika. Insisting on using the Zambeze and Chire rivers for mercantile transport, Malawi's president started construction of a port before consulting Mozambique about use of their national waterways for international shipping, and without conducting an environmental impact study as demanded by the Mozambican government. When the Malawian president passed away unexpectedly in April 2012, his successor immediately sought to reestablish good relations, and engaged in diplomatic talks during a state visit to Mozambique in May 2012.

Zimbabwe shares long cultural and historic ties with Mozambique, including ZANU-PF's support for FRELIMO during the civil war. This tie was strained somewhat when RENAMO leader Afonso Dhlakama withdrew with his old combatants to his former Gorongosa headquarters, a position not far from Zimbabwe's border. Fearful that Dhlakama's forces could engage in raids across the border into Manicaland (an eastern province of Zimbabwe), the Zimbabwean army deployed troops along its borders in early 2013.

Relations with Tanzania have grown stronger, particularly in the security arena. A tripartite agreement that also included South Africa was signed in 2012, with the goal of strengthening maritime security in the Indian Ocean and fighting piracy. Mozambique has also intensified its cooperation with Tanzania in the fight against illegal timber logging and cross-border trading. A memorandum of understanding signed in 2012 foresees the establishment of joint law-enforcement units, intelligence sharing and the establishment of check-points at border areas.

## Strategic Outlook

Long viewed positively by donors, Mozambique drew its first sharp criticism from this community when the electoral process in 2009 failed to provide a level playing field for the newly established MDM opposition party. Budgetary assistance was suspended until the government agreed to implement needed electoral reforms.

In other areas too, donors have become increasingly impatient with slow progress in terms of governance accountability, transparency and efficiency. Some have already suspended their direct budgetary support. Others may follow suit due in part to their own domestic financial constraints, which make it harder to justify development assistance to a country that has shown economic growth rates averaging 7% for the last decade.

The Mozambican government's biggest future challenge will thus be to keep donors engaged by demonstrating political will and reform results, while at the same time ensuring that macroeconomic growth can benefit a majority of the population.

Creating a more equitable growth will necessitate a renegotiation of existing investment contracts. However, this needs to be done in a way that avoids scaring off future investors seeking a stable investment climate. In order to attract foreign companies, the government has to improve a business climate that remains hampered by too much red tape, inefficient administrations and a weak rule of law.

If the megaprojects are to be of benefit for a broader swath of the population, more labor needs to be brought into the formal economy. As this is hampered at the moment by the low education and skills levels, major vocational-training investments are needed in the immediate future.

With 75% of the people in Mozambique depending on agriculture for their livelihood, and 70% of the population living in rural areas, agriculture is and will continue to be the most important sector for the development of the country's economy. Smallholder farmers account for 95% of the country's agricultural production, and considerable gains can be made by helping this sector to improve its productivity. The country has the potential not only to become self-sufficient in food production, but also to become a regional food exporter.

The coming months, including the local elections, will be decisive for future developments in the political sphere. The FRELIMO party congress in 2012 did not, as was expected, nominate a new presidential candidate and thus likely successor to the incumbent. However, as Armando Guebuza was confirmed as the party's president, the party's strategic orientation is likely to remain unchanged. What impact this might have on the government will largely depend on the personality and character of Guebuza's successor. RENAMO leader Afonso Dhlakama's armed

retreat and persistent threats raise the prospect of a RENAMO electoral boycott, as Dhlakama continues to try to pressure the government into concessions.

Local elections in 2013 will prefigure the 2014 national results, most of all for newcomer MDM, which must demonstrate its capacity to mobilize voters beyond its stronghold in Sofala province.