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Is Mozambique's elite moving from corruption to development?

By Joseph Hanlon and Marcelo Mosse

Mozambique's elite has responded to five decades of rapid change and international pressure by staying united and steering a course that tried to balance the conflicting pressures of national development, self-interest, and the demands of the international community. This paper argues that after a period of donor-supported corruption, crude rent-seeking and unsuccessful Washington Consensus policies, the elite has shifted into using the state to promote the creation of business groups that could be large enough and dynamic enough to follow a development model with some similarities to the Asian Tigers, industrial development in Latin America, or Volkskapitalisme in apartheid South Africa.

Responding to five decades of rapid change and international pressure while maintaining unity and a nationalist development agenda is no small victory in itself. And this has created a set of specific conditions which has, in turn, shaped the Mozambican elite and its development strategy. Three factors have influenced Mozambique's recent history:

- First, it is unusual in that the single liberation movement Frelimo has stayed united and is now the predominant political party, winning all multi-party elections. The party has never become personalised (as with Robert Mugabe in neighbouring Zimbabwe), and there have been peaceful handovers of power. There are bitter personal and political conflicts within the party, but it has never split and there have been remarkably few defections or expulsions. The present and most recent past presidents were liberation war leaders and now head important business groups. Thus the new elite of an independent Mozambique has its roots in the independence struggle, while its continuous control of the state has allowed the direction of state resources, contracts, licences, etc.
- Second, Mozambique is a poor, small and peripheral state. Although it will be an important mineral-energy exporter, it lacks that fabulous oil wealth of Angola or Nigeria, which means it has not been hit by the "resource curse" – there simply isn't enough money for big corruption.
- Third, Mozambique's recent history has been unusually shaped by international forces, including the cold war, the aid industry, and neo-liberalism.

Thus the leadership has had to juggle three often conflicting priorities: nationalism and development, class and self-interest, and overwhelming international pressure.

This paper is in five sections. First is an outline of recent Mozambican history. Second, thoughts on the shift to capitalism and corruption. Third, consideration of the changing shape of Mozambique's elite capitalism in the first decade of the 21st century. Fourth, a discussion of why this new model creates a base for a development model with some similarities to the Asian Tigers or Volkskapitalisme in apartheid South Africa. This will also include a discussion on governance and challenge some donor thinking on what constitutes corruption. Finally, we will raise a number of caveats and questions about whether the Frelimo elite is willing and able to follow the Asian model.

History

Mozambique has gone through five distinct periods, each shaped by foreign intervention:¹

LIBERATION WAR (1965-74): Portugal refused to follow the British or French models of decolonisation, and NATO backed Portugal's attempt to retain its colonies. The Front for the Liberation of Mozambique (FRELIMO) was the unique liberation movement, and it gained support from both China and the Soviet Union, as well as left parties in Europe. Internal divisions led to several killings, including the assassination of the first president, Eduardo Mondlane, in 1969. A

shocked Frelimo then took to heart the quote attributed to Benjamin Franklin, the US revolutionary, that “we must all hang together, or, assuredly, we will all hang separately,” and has maintained a remarkable unity since. Samora Machel was elected president in 1970 and Frelimo began to make gains against the Portuguese. A coup in Portugal in 1974 led by a military tired of fighting colonial wars opened the way to independence the next year.

SOCIALISM (1975-81): With the coup, Portugal stopped the war and Frelimo, as the only liberation movement, took power. This was the era of the one-party developmental state in Africa, so there was no challenge to Frelimo merging party and state. Under Portuguese colonialism, government and the economy were dominated by Portuguese settlers, and the regime had been quite brutal, so the majority of fearful settlers fled back to Portugal. Social services (health, education, law, funerals) were nationalised but little in the economy. However many businesses were abandoned (and often sabotaged as the manager left), so the state, by default, ended up with a key and unexpected role in a mixed economy. Inexperienced and often poorly educated Mozambicans filled the gaps, and within two years had turned around administrative and economic collapse; the economy was growing and there was a rapid expansion of health and education. Increasingly influenced by, and supported by, the then Socialist East bloc, Frelimo adopted a socialist policy, with the state playing the leading role in a still mixed economy. Five years after independence, Frelimo remained immensely popular, both for ending colonial oppression and for the expansion of health and education.

WAR (1982-92): Ronald Reagan took office as President of the United States in 1981 and immediately intensified the cold war. Proxy hot wars between East and West took place in Angola, Mozambique and Nicaragua, and the US backed white minority rule (apartheid) in South Africa as a bastion against neighbouring “communist” states. An opposition guerrilla movement, Renamo², was created. In an initially unsuccessful attempt to pacify the United States, Mozambique joined the World Bank and International Monetary Fund in 1984. The war escalated in 1986, with the killing of President Samora Machel³ and invasions of two northern provinces. As the war raged, Mozambique introduced a World Bank structural adjustment programme, which included a very large privatisation programme. Peace was only possible with the end of the cold war, which brought the end of apartheid in South Africa. A peace accord was signed in 1992 which recognised the legitimacy of the government and the existing constitution, but ensured multi-party elections and made Renamo the only serious opposition party.

CAPITALISM AND THE WASHINGTON CONSENSUS (1993-2001): Renamo failed to displace Frelimo as the natural party of government. Joaquim Chissano, who had replaced Samora Machel, was elected president in multi-party elections in 1994 and 1999. Whereas the World Bank had dominated Mozambican economic policy in the late 1980s, the IMF came to prominence in 1990 and imposed an extremely harsh structural adjustment programme which included a limit on post-war reconstruction and limits on health and education spending. The economy had grown under the first adjustment programme, during the war, but declined in the post war period and there was no peace dividend. The IMF even capped the aid Mozambique could receive. But with its turn to the West and capitalism, Mozambique had become a donor darling. The donors rebelled in 1995; the IMF was forced to lift the cap on aid and the World Bank again regained dominance over economic policy in Mozambique. But the Bank and Fund agreed that Mozambique was too poor to afford universal primary education or increased health coverage, and this was not reversed until the introduction of the Millennium Development Goals.

This was the era of “savage capitalism” with the state forced to withdraw from the economy. There was widespread privatisation – small firms to members of the Frelimo elite and larger firms to foreign companies – and rapidly growing corruption. Joaquim Chissano nearly lost the 1999 election⁴ and Frelimo was shocked to find that the vote against Chissano was largely due to complaints about corruption and what was seen by the voters as the lack of Frelimo commitment to undertake anti-corruption measures. Two major privatised banks were looted, and two people investigating the frauds were assassinated; President Chissano’s son was eventually charged with involvement in one of the murders.⁵ Meanwhile, although loosening the IMF cap led to economic growth in 1996-8, the economy declined again in 1999-2001 and poverty increased, raising questions about Washington Consensus economic policies. Taken together, these brought the era of donor-promoted freebooting capitalism to an end.

PRODUCTIVE ELITE CAPITALISM (2002-): Under the constitution, Chissano could stand one more time for the presidency, but Frelimo realised that his image was so tarnished that he would

lose. So the party selected Armando Guebuza as its new leader, and he won the 2004 election with 64% of the vote. (A mark of Frelimo's unity is that Chissano remained inside the party and is still an important political force.) Even as it fell out of fashion elsewhere, donors in Mozambique retained their commitment to the neo-liberal, Washington Consensus policies. But very quietly (so as not to frighten the horses) the Mozambican elite began to direct state resources into productive investment. Guebuza strengthened, broadened and decentralised the party, while retaining quite tight central control. And a serious crackdown on some corruption began.

The implications of this current period are the subject of the rest of this paper.

Capitalism and corruption

The late 1970s had been an era of exceptional integrity⁶; the leadership under Samora Machel was quite puritanical and any corruption was harshly punished, while the enthusiasm for independence and building a new country created a collaborative spirit that militated against private enrichment.⁷

Michel Moran⁸ argues that authoritarian states tend to limit criminal activity through excessive regulation which limits the opportunities for corruption. Also corruption, misuse of state property, and commerce outside the tight state regulations was treated politically as actions against the state. As the war intensified, Frelimo tried to curb unregulated trading through increasingly authoritarian methods, culminating in the execution of trader Gulami Nabi on 9 April 1983 for running a prawn smuggling network.

But the worsening war made control impossible. Attempts to maintain fixed prices failed and there was increasing illegal trading in rural areas. State farms even bought food on the parallel market to feed their workers. And the war inevitably created corruption among senior military figures.

The harsh IMF adjustment programme of 1991 pushed down civil service wages and by 1993 even nurses and teachers had fallen below the poverty line. Everyone needed extra money, so civil servants stole time (to tend gardens or do second jobs) or resources (using state cars as taxis). Teachers, nurses and others in contact with the public expected informal fees. In just a few years of adjustment, petty corruption became institutionalised. People remembered the late 1970s, when no one asked for a bribe, and were angry, but understanding – they did not approve but knew the nurse had to feed her family.

The increase in corruption came with war and a shift to a new form of capitalism. Although Mozambique was closely aligned to the socialist bloc and Frelimo professed to be a socialist party, its image of socialism was really more like Nordic social democracy. The state was to play a leading role in the economy and in development, and trade was regulated, but there was to be a large private sector and foreign investment. Indeed, in 1979 Frelimo began a programme of re-privatisation of small and medium sized businesses that had been abandoned by the Portuguese and were being run by the state. The war stopped this process, as Renamo targeted small business in rural areas and towns.

Frelimo leaders had little business or management experience but they learned fast. Some of the new state companies proved to be well run. In the late 1980s, during the war, privatisation was resumed. Some companies went to existing successful managers. Generals were given companies to tempt them out of the army. Some firms went to the Frelimo elite. And larger firms were generally taken over by foreign companies.

Privatisation was both pushed and backed by the donors and World Bank and IMF, who were soon hailing the privatisation of more than 1000 businesses as a world success. In order to promote this success, donors colluded in a highly non-transparent privatisation process. Indeed, the World Bank admitted that it pressed local banks to on-lend World Bank money to members of the elite with newly privatised businesses, even knowing the loans would not be repaid. Some donors also allowed the aid money to be given to these newly privatised businesses, with no expectation of repayment.⁹

For the former "socialist" Frelimo elite it was a strange lesson in capitalism – people were given businesses and then given loans they did not need to repay. Indeed, many accepted the old communist cartoon image of the capitalist, as someone who does no work but has a big office and fancy car and lives off the profits created by the workers. Inevitably, many of these businesses collapsed.

Finally, the formal transition to multi-party democracy in 1994 was not accompanied by other mechanisms normal in democracies. There were no conflict of interest regulation, no asset reporting and other transparency requirements, and no reforms to the justice system. Thus the elite came to understand that “democracy” and “capitalism” meant that they were allowed to use their privileged positions to accumulate wealth unobserved.

In an earlier article¹⁰, one of us argued that donors actually promoted corruption in Mozambique. They were so anxious to promote Mozambique as a free-market aid success, that they entered into a tacit agreement with the elite that corruption would be permitted so long as “market-friendly” policies and all other donor demands were accepted and publicly praised. The crunch came when the IMF and World Bank forced¹¹ the privatisation of two state banks in 1995 and 1996. In both cases honest central bank officials warned the Bretton Woods institutions that the only potential buyers were corrupt, but the reply was that even a corrupt privatisation was better than state ownership. Both banks were privatised to consortia containing members of the Frelimo elite, and the two banks failed after being looted of more than \$400 million (often in the form of loans which were not repaid). As already noted, two prominent people investigating the frauds were assassinated.

The 1990s was also a period of land grabs. Land is owned by the state but those who use the land have permanent occupancy rights, in a compromise system intended to encourage investment but to prohibit land mortgages and landlessness. The World Bank and United States were pushing hard for land privatisation, and the elite allocated themselves vast tracts of productive land which they hoped to sell off after privatisation. But fear of landlessness led to pressure within Frelimo, and the land law was not changed.

This was an era of what was known as “goatism” (cabritismo), from the saying “a goat eats where it is tied”. In other words, people wanted a share of whatever passed within their reach. No project could go ahead without local and national party officials having shares; this was purely to earn a share of the profits, as these silent partners contributed nothing. It became so bad that many projects could not go ahead because the share for the goats made them unprofitable. David Stasavage¹² notes that this was encouraged by a civil service organisation in which bureaucrats maintained extensive power and discretion over economic processes. Increasingly in the smaller neo-liberal state, bureaucrats only had power to block economic development and had few resources to assist, so they became increasingly rent seeking.

Many of the Frelimo elite adopted “greed is good” as their motto, and were supported in this by representatives from donors and the international financial institutions who assured them that by becoming personally rich, they would actually promote development. As recently as 2006, the IMF actually used the phrase “trickle down” in a Mozambique document.¹³

This picture of goatism and rapacious capitalism is not the only one, and Frelimo was always divided. In an earlier paper¹⁴ one of us argued that the Frelimo elite was divided into “predatory” and “developmental” groups. The former looked to personal gain, assumed everything including the legal system was for sale, and expected the party to protect them; development was to be left to the donors and foreign investors. The latter group, while still accepting capitalism and wanting to live well, also looked to entrepreneurial activities that would promote Mozambican development, and continued with a traditional Frelimo ideology of wanting to “develop” Mozambique. Frelimo’s (perhaps justified) obsession with unity meant that even the most grossly corrupt had to be kept within the party and there could be no investigations, even of the looting of the privatised banks.

But there was a backlash inside the party. Armando Guebuza was backed by the developmental and traditional wings of the party in opposition to Chissano. A former interior and transport minister and political commissar of the army, he was one of the Frelimo leaders who actually understood Marxism, and thus also understood the significance of the shift to modern capitalism. He began to use his links in transport and government to become involved in real businesses, including fishing (which requires government licences) and port management. By the time of his selection as head of the party and presidential candidate, he was believed to be one of the richest people in Mozambique.

LSE anthropologist Jason Sumich points to the Frelimo ideology and narrative of modernisation.¹⁵ Portuguese fascism intentionally kept Mozambican and Portuguese peasants illiterate and poor; the revolutionaries came from a tiny elite who had been able to obtain at least a minimal education, and they saw one role of the revolution as modernising Mozambique and

pulling it into the 20th century. In 1979 President Samora Machel launched a plan to “overcome underdevelopment” in a decade. Thirty years later, President Amando Guebuza is calling for “victory over absolute poverty”. Machel’s model involved rapid industrialisation, including a textile factory in each of the 10 provinces. Today there is much more stress on electrification, computers and mobile telephones. Sumach points to the way the elite sees itself with a mission to modernise the poor. But that is a double edged sword. On one side, it is paternalistic and treats peasants as backward, which justifies the position of the elite (and its children) as leaders. The modernisation narrative means that the elite and their children often have more links with the modern western world, through television, internet and travel, than they do with Mozambique’s rural areas. On the other side, it has led to a huge expansion of education and ensured that development is more than an electoral slogan.

A final comment is necessary on the way that the elite links to Africa and Mozambique. Mozambique’s elite remains very nationalist. There is little evidence of large foreign bank accounts, palaces abroad, or hiring airplanes for foreign shopping trips. To be sure, there are modest flats in South Africa or Portugal. But the new rich tend to invest in Mozambique – million dollar houses in the capital Maputo, beach-front weekend properties and expensive cars. And, perhaps most important, they invest in their children, sending them to the best private schools in Maputo and then to good universities abroad. And the young tend to return to take up jobs in non-government organisations, government, or business – which also has the effect of perpetuating the elite dominance. However, the elite is not closed. The post-independence expansion of health and education created a new middle class of teachers and nurses who, themselves, had not been to university but were able to send their children to Mozambican universities. And talented and educated young people from middle class families can rise in the party, state, NGOs and business and some are absorbed into what is still an expanding elite. This does, however, create a potential political issue within the Frelimo party, in particular. Chissano and Guebuza were born in 1939 and 1943 respectively and were leaders in the liberation war; the next group is the children of those liberation leaders or those who were in secondary school at independence. Younger people increasingly feel they are better educated and more capable than their elders (reflecting the modernisation narrative) but have no voice.

Elite capital in the 21st century

The election of Armando Guebuza as head of Frelimo in June 2002, in place of Joaquim Chissano, showed that the excesses of the 1990s were no longer acceptable. It also marked an important change of attitude and approach to the party, government, and especially to development strategy.

Guebuza spent substantial time rebuilding the Frelimo party at provincial and local level and later decentralising government administration; party and state were brought closer together and there was increasing pressure for state functionaries to join the party. Local development committees and local officials for the first time had real power over spending local budgets, while at the same time Guebuza and Frelimo centralised control over major decisions. The revitalised party became an important channel of two way communication, information passing up from the bottom made Frelimo much more responsive to grass roots concerns, but instructions passing from top to bottom increased central control. Although personal patronage was still dispensed by party barons and the old guard, it was increasingly the party rather than individuals who controlled patronage.

From the base, the message was about the lack of jobs and money. Meanwhile the manifest failure of the Washington Consensus development model still being promoted led some officials to, for the first time, brazenly ignore the donors. In one unprecedented move, without consulting the donors, the new Guebuza government inserted a budget line to give \$250,000 a year to each of 128 districts for local development and job creation, with decisions at district level. In 1995 at the height of the neo-liberal mania the World Bank had destroyed the local cashew industry by enforcing free export of unprocessed nuts.¹⁶ From 2001 a government agency for cashew worked with local institutions to reverse the World Bank imposed policy and support the entire value chain, with support for new processing factories and restrictions on exporting unprocessed nuts. By 2006, 6000 factory jobs had been created. But the whole process was done quietly, with little publicity, so as to avoid a negative response from the World Bank and donors.¹⁷

In the 1990s, the nomenklatura used their state links for acquiring land (often left unused) and explicit rent-seeking through loans which were not repaid, commissions, and interests in

foreign investments designed purely to receive a share of profits. We argue here that there may be a shift to creating what appear to be well run businesses, using state access to gain contracts and licences, but increasingly actually carrying out the work and doing it well.

The transition to a new style of elite capitalism is neither smooth nor even. Guebuza is aggressively expanding businesses in which he has a personal interest. But he is also attracting the brightest of the foreign trained younger generation who work hard and want to move quickly, while marginalising the old comrades who are only trying to get rich through “goatism” and influence, using their family and party links. But gangster capitalism, “goatism” and petty corruption did not end suddenly or completely, and remain present. Key members of the elite have built on bases created in the 1990s and expanded their interests under the party and state umbrella¹⁸:

GUEBUZA FAMILY COMPANIES: The main company partly owned by the President is **INTELEC**, which is involved in electricity transmission and equipment, telecommunications, gas, consulting, cement, tourism, construction, Tata vehicles, and fishing. The company is headed by Salimo Amad Abdula, who is also head of the Mozambican business association,¹⁹ which gives President Guebuza a direct role in all Mozambican business. Intelec also holds 5% of Vodacom Moçambique, the private mobile telephone company which competes with the state operator and Abdula recently became chair of the board of Vodacom Moçambique.²⁰ Cornelder de Mocambique which has the port management contracts for Beira and Quelimane is partly owned Guebuza (the majority is owned by Cornelder in the Netherlands and CFM, the state railway company).

Guebuza children and relatives have interests in various companies, often in participation with other children of the elite, and are involved in telecommunications, mining, construction, tourism, environmental issues, petrol stations, and a new grain terminal; several consultancy companies have also been established. Armando Guebuza is also a shareholder of some of them, particularly through the family company Focus 21.

Guebuza family companies have a number of projects around natural gas from a large field on the coast at Inhambane. Intelec had a gas fired power station supplying electricity to Vilankulo, the nearest city to the gas field. It is part of a group (linked to the French company Suez) building a second power station along the existing pipeline in Moamba, in part to sell electricity to South Africa. A company owned by another member of the family has the contract to convert and sell natural gas as motor fuel.

Two other traditional Frelimo leaders have important business interests. **GRAÇA MACHEL**, former education minister, widow of Samora Machel and wife of Nelson Mandela remains a key figure in the developmental wing of the party. Her Community Development Foundation²¹ and her group Whatana have made a range of development-linked investments, and have links with Petromoc, the state petroleum company. Whatana also holds 5% of Vodacom Moçambique and is proposing to purchase an interest in a large Mozambican bank.

And former president **JOAQUIM CHISSANO** is building his business interests through the Fundação Joaquim Chissano and TIKO Investimentos, partly with \$5 million from the Mo Ibrahim Prize for African Leadership which he won in 2007. In contrast to Guebuza and Machel, Chissano is involved in grander projects which are reliant much more on external money and expertise. TIKO in late 2008 bought a small troubled airline, Transairways. And the foundation is involved in an \$8 billion oil refinery in Maputo, jointly with Petromoc, but in early 2009 it became clear that money could not be found for the project.²² Chissano has also failed to attract the younger and more competent generation to his businesses, which are increasingly accused of being poorly run.²³ The most visible face of his enterprises is former foreign minister Leonardo Simão, who is head of the foundation, but whose own company, Golden Rose Fields, was temporarily closed down in 2007 by government inspectors because of very poor conditions for its workers.²⁴

The Brazilian Companhia Vale do Rio Doce (now just Vale) was awarded a mining licence for one of the largest untapped coking coal reserves in the world, in Tete province in December 2004, just before Chissano left office; Chissano in 2005 became a non-executive director of African Rainbow Minerals, a South African black empowerment company owned by millionaire Patrice Motsepe, which subsequently signed a joint venture with Vale. Chissano was then guest of honour at the official opening of the project on 28 March 2009.²⁵

Finally, playing a less activist role are a number of state and party companies. SPI is the investment company of the Frelimo party, while SPF serves as an investment company for veterans of the liberation war. SPI seems caught in the old rent-seeking days, which was illustrated in 2006 when a company part-owned by SPI was given the contract to install a non-invasive scanner in port of Maputo;

all containers going through the port had to pass through the scanner, and pay a fee of \$20 to \$100 per container.²⁶

Returning to an old development model?

The leader of a different development model is not a hang-over from the 1990s, but a new group of companies, **INSITEC**, created by Guebuza protégé Celso Correia. He is a prime example of the way dynamism and elite links have mixed. At independence, the Cahora Bassa dam, one of the largest in Africa, remained in Portuguese ownership²⁷. Thirty years after independence, Guebuza wanted to take the dam into national ownership, while Portugal wanted to sell because it urgently needed money to reduce its budget deficit to meet European Union rules, but the IMF would not allow Mozambique to take on additional debt. Correia was a good friend of the son-in-law of a good friend of Guebuza, and Correia used his links to arrange a meeting with Guebuza. He then did the financial engineering that allowed the debt to rest with banks and the dam company itself. His success in organising the take-over of Cahora Bassa has propelled him into the centre of the network of companies around Guebuza.

In 2007, as part of the Cahora Bassa deal, Insitec was allowed to take over the 18% local share of the second-largest bank, BCI-Fomento, and Correia became president of the bank; the rest is owned by Portuguese banks Caixa Geral de Depósitos (51%) and BPI (30%).²⁸ Correia has quickly moved BCI into actively carrying out the government's development strategy. A repeated and bitter complaint is that the privatised banking system concentrated in the big cities and closed branch banks in market towns and refused to reopen them despite political pressure. Under Correia, BCI has expanded to 50 branches and has won high praise from the governor of the Bank of Mozambique, Ernesto Gove. Similarly, when a US company abandoned its interest in managing the northern railways in 2008, it was Insitec and BCI that took over the shares.

There are four companies in the group, Intéllica and I-Tec which specialise in computers and information technology, Insitec-Constroi in construction, and Energia Capital dealing with the energy sector and bio-fuels.

Insitec is young. Correia is 31 years old, and the average age of his partners is 30; he argues that young people are more dynamic and entrepreneurial.²⁹ Correia said that an Insitec policy is to form links with bigger foreign companies in order to raise Insitec's performance. In 2006 Insitec took over the consulting arm of Ernst & Young in Mozambique. Insitec-Constroi has linked up with foreign construction companies to improve quality and speed; it successfully built a new building for the National Communications Institute (INCM) in partnership with Segeco Moç, a Chinese construction company based in Mozambique.

Insitec supplied the computers for Mozambique's electoral registration in 2007 and for the electoral process in the Democratic Republic of Congo.

Energia Capital is partly owned by two parastatal companies with important party links: GPZ, the Zambezi river valley development office, and SOGIR, an investment company itself owned by GPZ and various other state companies in telecommunication, electricity and insurance. Energia Capital and a Brazilian company Camargo Corrêa have been given the right to build the \$3.2 bn Mphanda Nkuwa dam on the Zambezi river and a 1400 km power line to link it to Maputo; a project now delayed by the global depression.

Insitec gives its vision as: "To achieve an international presence and recognition as a company which is fundamental for the development of southern Africa."³⁰ Insitec already works in Angola, DRC and South Africa. In December 2008 BCI said it wanted to become a regional bank, and is negotiating to take over part of a South African bank.

This shift from unproductive to productive rent-seeking begins to look more like the model in some successful developing countries. Japan, Korea, Taiwan³¹, Singapore, and Malaysia all promoted industrialisation, typically through a combination of subsidy and protection which allowed privileged local private firms and groups to grow to a size at which they could be competitive. In East Asia, private companies were selected as "national champions" and supported and built up by government.³² This was combined with policies which forced local firms to become more efficient, innovative and competitive, and penalised those which were lazy or ineffective and simply survived on the protection.

A similar model was followed in Latin America, notably in Brazil and Mexico in the 1940s-60s. Mexico is an important example for Mozambique, because Mexico was a predominant party state in which the party maintained support by promoting development using agricultural³³ and

mineral revenues, as Frelimo hopes to do in Mozambique,³⁴ and because of its revolutionary history Mexico had the same family links between the private sector and state.³⁵ In both Brazil and Mexico key elements were: 1) cheap, directed finance from the development bank – Nafinsa in Mexico and BNDE in Brazil; 2) state companies and state investment in private companies; 3) subsidised services and inputs; 4) protection of production for domestic markets; 5) preference in state contracts; and 6) export incentives of up to 20%. Although the programmes were successful, Richard M Auty argues that for two reasons policies were less successful than in Korea. First, Korea moved steadily though labour-intensive to capital-intensive manufacturing, while Brazil and Mexico tried to leap over the labour-intensive stage, which depressed the rate of employment creation. Second, Mexico protected a rent-seeking elite (*amiguismo* – “friendism” – was the Mexican equivalent to *cabritismo* – “goatism”) and failed to push firms to be competitive and innovative.³⁶

Closer to home, in South Africa in the 1940s, Afrikaner industrialisation was built on state and public support for a small group of financial institutions, led by Sanlam, which in turn financed the development of manufacturing.³⁷ The core argument behind the policies in all of these countries is that, in contrast to the neo-liberal view, state intervention is essential because transnational capital is predatory and will try to block local development, because domestic entrepreneurs are weak and lack the necessary capital (as well as being risk averse), and because it can take a decade to gain profitability which is too long for companies acting on their own.

Indeed, as an alternative to the World Bank-IMF Washington Consensus, Keun Lee, John Mathews, and Robert Wade propose the BeST (Beijing-Seoul-Tokyo) Consensus³⁸. They write:

The BeST Consensus starts with the proposition that palliative policies, focused on poverty reduction (as in the Millennium Development Goals), must not be confused with development policies. Development policies take as their touchstone building capacities of (local or joint venture) firms. ...

But the BeST Consensus does not endorse a simple import-substituting industrialisation strategy. It enjoins a combination of (a) assistance to exporters (including duty-free access to inputs and public provision of information about export markets), and also (b) temporary assistance to selected import-substituting production, in conditions of enough openness to ensure that most domestic firms are subject to close to world market prices (adjusted for transport costs) in most of their operations. Externally set prices put pressure on firms and the political leadership to be economically efficient. When state intervention weakens market incentives the state has to supplement market discipline with alternative disciplining mechanisms, such as sunset clauses on industry assistance. The East Asian economies provide abundant evidence on how to do what mainstream economists say is impossible - promote exports and import-substitution at the same time. ...

To encourage local or JV firms to grow and reinvest, states following the BeST Consensus assure them of preferential access to certain sectors and learning opportunities. The choice of which sectors to target is made easier in late-developers as compared to already developed countries, because they are much further back from the world frontier.

Is this what is happening now in Mozambique? President Armando Guebuza appears to be building up a group of companies around information technology and built on bright, young, well-educated, and, most importantly, competent, Mozambicans.

Raphie Kaplinsky and Ha-Joon Chang³⁹ both point to the problem of global political pressures against industrial policies designed to promote this kind of development. Governments are no longer permitted to provide the range of subsidies and other forms of support which facilitated industrial growth in previous eras.

In particular, then, the kinds of policies which promoted industrialisation in other developing countries – preferential access to government tenders, subsidies, and direct interaction with government policy makers – are now seen as improper and corrupt.

That brings us to two opposing descriptions of the Mozambican firms and groups developing around the present and past presidents. The most common picture, painted by the donors and the international financial agencies, is of a corrupt elite using its access to state resources for personal gain, blocking access to more efficient foreign firms and extracting rents from the higher prices that can be charged for goods and services.

But we can paint another picture. Given Mozambique's history and social context, it is logical that enterprises which can be "national champions" will develop around powerful people, such as the present and past presidents. Changing international rules and attitudes, which are now biased toward transnational corporations and against local capital, mean that the methods used to support "national champions" in Asia, Latin America and South Africa are no longer acceptable. But what is now being treated as corrupt and as poor governance is, in fact, a sensible latecomer development strategy, and is merely doing what other developing countries showed was necessary to build a few regionally and globally competitive companies.

Insitec has clearly benefitted from some less than transparent decisions by the government, for example over the Mpanda Nkuwa dam and power line. Similarly, without tender, Insitec was given three key sites in central Maputo, including a Ministry of Labour car park, for buildings it plans to construct.⁴⁰ The independent weekly *Savana*⁴¹ reported that Correia and Insitec had come under pressure to give some Frelimo "goats" an interest in the company; Correia replied that he did not need that kind of "political muscle". But he added that "big business is normally aligned with the grand national political strategies of the country." This happened in the past in the now developed countries and must happen in Mozambique, where the private sector is very young, he said.

The question is whether the development of presidential companies should be more openly encouraged as a way of creating firms and groups which are dynamic and effective enough to be competitive and developmental. Can these presidential companies, through their privileged access to the state, potentially grow to a critical mass allowing them to become major players in the development of Mozambique and southern Africa, as happened in the past with privileged companies in the Asian Tigers, Latin America and South Africa?

Conditions, competition, collaboration, innovation

Having large groups with political and state connections seems to be a necessary condition for development – but it is not sufficient. Research on successful developing countries suggests there are four other requirements:

CONDITIONS: In South Korea and other Asian Tigers, access to credit and state resources was highly conditional; companies had to meet rigid conditions for sales and exports, to ensure that state resources were not wasted. So far, access to state rents in Mozambique is unconditional. Mexico provides a worrying example, where family and party links allowed high levels of unproductive rent-seeking.

COMPETITION: Unquestionably, national companies need protection and support in the initial phase, but to be useful they must eventually be at least regionally competitive. Thus there needs to be a system which ensures that firms are steadily opened to competition. Writing on the BeST Consensus, Lee, Matthews and Wade say there must be "enough openness to ensure that most domestic firms are subject to close to world market prices (adjusted for transport costs) in most of their operations. Externally set prices put pressure on firms and the political leadership to be economically efficient." This is a real problem in Mozambique, where, for example, protection of local construction companies has led to low quality and high cost. But Insitec is explicitly moving to be regionally competitive.

COLLABORATION: Building national capacity requires collaboration, even between competing companies, in marketing, research and development, and other areas. For example, a group of privately owned cashew factories now export jointly under a single name, Zambique. In Brazil, the state development bank has a programme to bring together entrepreneurs in the same sector to foster collaboration and exchange of information and experience. Such collaborative groups are also better able to push the state for support, and such structured collaboration is needed in Mozambique. A concern for Mozambique is the importance of personal links with President Guebuza, and good people have been politically and economically marginalised because they fell out with Guebuza. The intense competition between Guebuza and Chissano is personal, political and economic, and a number of Chissano allies have been marginalised⁴². Also, in order to give the bank BCI to Celso Correia, Guebuza had to push former finance minister Magid Osman and his Mozambican company SCI out of the bank; Osman resisted and the chance to build collaborative links was lost. Interestingly, however, the marginalised people do not leave Frelimo.⁴³

INNOVATION: National companies can only be regionally and internationally competitive if they develop the ability to innovate, creating new products and improved production techniques. This requires collaboration and state support. Lee, Matthews and Wade note that “in tackling the task of building the capacities of firms, public agencies can help compensate for deficiencies in the existing structure of markets - agencies such as export-import banks, export processing zone administrations, development banks, technology institutes, and high-level state coordinating agencies (such as MITI and Ministry of Finance in Japan, the Industrial Development Bureau and the Industrial Technology Research Institute in Taiwan, and the National Development Reform Commission and the Export-Import Bank in China). Staffing up such agencies with technically competent people is a high priority in countries following the BeST Consensus.” This has been difficult in Mozambique, because donors have been strongly and publicly opposed to a development bank and other support agencies, so government support has been done with little publicity and even clandestinely, as has been the case with cashew. It is easiest to start innovating around local problems and this is already taking place in the cashew sector; the Guebuza companies are heavily involved in developing uses of natural gas. Guebuza created a new Ministry of Science and Technology with a young, dynamic minister, but it so far is not providing R&D or other support for local companies. John Matthews⁴⁴ argues that biofuels “represent an exceedingly attractive option for developing countries”, in part because the crop mix and growing conditions are different in each country, and thus fuel extraction requires technological modifications which are ideal for local technicians to gain their initial skills. Mozambique is putting great emphasis on biofuels, yet it is totally dependent on foreign companies for the technology, which means an opportunity to learn innovation skills is being lost.

We argue here that such support is an essential part of any latecomer development strategy, and that presidential companies represent an important and necessary first step. But the road is still long, and discipline will be required. Can the Mozambican elite develop the culture of hard work, saving, and delayed consumption that was central to the economic development of the Asian tigers?

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Endnotes

- ¹ Joseph Hanlon 1991, *Mozambique, who calls the shots?*, London: James Currey; Joseph Hanlon 1996, *Peace without profit*, Oxford: James Currey, and Joseph Hanlon and Teresa Smart 2008, *Do bicycles equal development in Mozambique*, Oxford: James Currey.
- ² UN figures show that at the end of the war in 1992, Renamo occupied 25% of the land but controlled only 6% of the population. Renamo became the official opposition party. More than 1 million people (7% of the population) had died; the economy was devastated and damage exceeded \$20 billion.
- ³ Samora Machel was killed in a plane crash which was never formally explained but is generally attributed to a false navigation beacon set up by the South Africans.
- ⁴ Indeed, there is evidence that the results were manipulated in several provinces, leading to credible suggestions that Renamo leader Afonso Dhlakama actually received more votes than Chissano. See *Mozambique Political Process Bulletin*.
- ⁵ Mozambique's best investigative journalist, Carlos Cardoso, was assassinated in 2000. Nyimpine Chissano was charged with organising the killing, but died before the case came to trial. Antonio Siba-Siba Macuacua, head of banking supervision at the Bank of Mozambique (central bank), was killed in 2001.
- ⁶ In 1980 Francisco Langa, a revolutionary war leader and central committee member, was caught stealing money meant for Zimbabwe refugees. He committed suicide from shame, and an unprecedented central committee statement publicised the embezzlement and suicide.
- ⁷ During the Samora Machel era people who were seen as corrupt or dissolute were publicly labelled as "xiconhacas", a compound word from the nickname Xico which referred to the old Portuguese secret police PIDE and nhoca, which means snake. Armando Jorge Lopes et al 2002, *Moçambicanismos*, Livraria Universitária, Maputo.
- ⁸ Michael Moran 2000, "From Command State to Regulatory State?", *Public Policy and Administration*, 15(4), pp 1-13.
- ⁹ Joseph Hanlon 2004, "Do donors promote corruption? The case of Mozambique", *Third World Quarterly* 25(4) pp 747-763.
- ¹⁰ Ibid.
- ¹¹ Joseph Hanlon 2002, "Bank corruption becomes site of struggle in Mozambique", *Review of African Political Economy*, 91, pp 53-72. One privatisation was a "necessary condition" of a World Bank agreement. If the condition was not met, the agreement would fall. Since all aid was conditional on having a World Bank agreement, that would have ended all aid to Mozambique, and people would have starved.
- ¹² David Stasavage 1999, "Causes and Consequences of Corruption: Mozambique in Transition", *Commonwealth and Comparative Politics*, vol.37(3), pp.65-97.
- ¹³ IMF, "Country Report No. 06/46: Republic of Mozambique: Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility" <http://www.imf.org/external/pubs/cat/longres.cfm?sk=18874.0> In 1992 John Kenneth Galbraith described trickle-down theory as "the less than elegant metaphor that if one feeds the horse enough oats, some will pass through to the road for the sparrows."
- ¹⁴ Joseph Hanlon 2002, "Bank corruption becomes site of struggle in Mozambique", *Review of African Political Economy*, 91, pp 53-72.
- ¹⁵ Jason Sumich 2008, "Utopia Yet Again Delayed: Socialism, Liberalism and the Mozambican Elite", unpublished. Jason Sumich 2008, "Politics after the Time of Hunger in Mozambique: A Critique of Neo-Patrimonial Interpretation of African Elites", *Journal of Southern African Studies*, 34(1), pp 111-125
- ¹⁶ Joseph Hanlon 2002, "Power without responsibility: the World Bank & Mozambican cashew nuts", *Review of African Political Economy* 91 pp 53-71.
- ¹⁷ Chapter 5 of Hanlon & Smart 2008 *Do bicycles equal development in Mozambique* is entirely about the revival of the cashew sector.
- ¹⁸ Ownership data is published in *Boletim da Republica*. See also Marcelo Mosse 2005, "Can Mozambique's new president lead the fight against corruption?" *Review of African Political Economy* 104/5 pp 431-436
- ¹⁹ CTA, Conferência das Associações Económicas.
- ²⁰ Presidente do Conselho de Administração da Vodacom Moçambique.
- ²¹ Fundação para o Desenvolvimento da Comunidade
- ²² *Indian Ocean Newsletter*, 25 February 2009.
- ²³ *Savana*, 8 May 2009, comments: "os círculos próximos do ex argumentam que o homem e os seus próximos ainda não estão muito familiarizados na área do 'business' e esqueceram-se de fazer as 'due diligence' à empresa dos pequenos aviões que compraram." (Circles close to the ex [president] argue that the man and those close to him are not very familiar with the area of business, and forgot to do a 'due diligence' [audit] on the small airplanes business they bought.") See also, *O País* 17 April 2009 on poor management of Transairways.
- ²⁴ "Até à criação de melhores condições de trabalho: Suspenso funcionamento da 'Golden Roses Fields'," *Notícias*, 3 Nov 2007.

²⁵ "Show Chissano", *Savana*, 3 Apr 2009.

²⁶ Hanlon & Smart 2008, *Do bicycles equal development in Mozambique?*, p116

²⁷ The dam was built by Portugal to supply electricity to apartheid South Africa, which was charged a very low price in exchange for support in the colonial war. At independence, Frelimo refused to take the "great white elephant" because income would never cover the payments on bonds taken out to pay for construction.

²⁸ CGD lent Insitec most of the money needed to buy the Mozambican share of the bank, according to Correia. *Savana*, 15 June 2007.

²⁹ *Savana*, 15 June 2007.

³⁰ "Conseguir reconhecimento e presença internacional como empresa fundamental para o desenvolvimento da região da África Austral. " Insitec (<http://www.itec.co.mz/>)

³¹ R H Wade 1990, *Governing the Market: Economic Theory and the role of Government in East Asian Industrialization*, Princeton: Princeton University Press

³² Raphael Kaplinsky 2008, *Globalization, poverty and inequality: between a rock and a hard place*, Cambridge: Polity, 2008.

³³ An important aspect of Mexican policy which could provide a useful lesson for Mozambique was that from 1945 through 1955, there was "vast state investment in irrigation (and related infrastructure)" which caused agricultural output to grow at 9% per year, which in turn helped to fund state investment in manufacturing. James M Cypher 1990, *State and Capital in Mexico*, Boulder: Westview, p 54

³⁴ Hanlon & Smart 2008, ch 9.

³⁵ Roderic Camp 1989, *Entrepreneurs and politics in 20th century Mexico*, New York & Oxford: Oxford University Press.

³⁶ Richard M Auty 1994, *Economic Development and Industrial Policy: Korea, Brazil, Mexico, India and China*, London: Mansell.

³⁷ Dan O'Meara 1983, *Volkskapitalisme: Class, capital and ideology in the development of Afrikaner nationalism 1934-1948*, Cambridge: Cambridge University Press, pp 247, 248

³⁸ Keun Lee, John Mathews, and Robert Wade, "Rethinking development policy: A new consensus", *Financial Times*, London, 19 October 2007.

³⁹ Ha-Joon Chang 2002, *Kicking Away the Ladder: Development Strategy in Historical Perspective*, Wimbledon: Anthem Press.

⁴⁰ *Indian Ocean Newsletter*, 2 May 2009.

⁴¹ *Savana* 15 June 2007.

⁴² There has also been a clear crackdown on the people publicly identified as most corrupt of the Chissano era, which can be seen both as a clean-up and as an attack on Chissano. Among those arrested were former Interior Minister Almerino Manhenje and Orlando Come, the head of computing for elections. Come is an interesting example, because under his leadership the elections computing repeatedly failed, but in 1999 the lack of much criticised lack of security in the computer systems allowed extra votes to be added for Chissano, which may have made the difference in a close election. (Footnote 4, above, and *Mozambique* 129, 6 June 2008 <e-mail newsletter edited by Joseph Hanlon and posted on www.tinyurl.com/mozamb> and *Mozambique Political Process Bulletin* 31, 29 December 2004.) The allegation is that the new Guebuza broom is first sweeping out the corrupt and incompetent linked to Chissano, but not those close to the Guebuza family.

⁴³ Hanlon & Smart 2008, *Bicycles*, p 176.

⁴⁴ John A. Mathews 2007, "Latecomer Strategies for Catching Up: Linkage, leverage, and learning" ; John A. Mathews 2007, "Latecomer strategies for catching-up: the cases of renewable energies and the LED programme", *International Journal of Technological Learning, Innovation and Development*, 1(1) pp 34-42.