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CRONY CAPITALISM IN MOZAMBIQUE: EVIDENCE FROM NETWORKS OF POLITICIANS AND BUSINESSMEN¹

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Abstract

This paper discusses crony capitalism in Mozambique, by analysing the social networks that exist among political and economic players, using the SNA – Social Networks Analysis method. The variables are selected to identify cliques and the covariates that explain this network relationship are taken into account, namely *military*, *ethnicity*, *family*, *politics*, *business*, *entrepreneurship*, *political party* and *gender*. Policy implications are derived.

Keywords Mozambique, social networks, crony capitalism, multivariate analysis, policy implications

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WORKING PAPER

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1. INTRODUCTION

Crony capitalism is a concept frequently used to analyse the Asian political economy. Recently it has been used to describe entrepreneurship in Africa. This paper tests some of the variables associated with this phenomenon in Mozambique, using SNA – Social Network Analysis (Prell 2012) and regressing tie formation within the network against variables which might lead to cronyist situations, identifying those that explain tie formation. This research is based on the fact that, in African countries, wealth accumulation is still in its early stages, and power is based on political relationships.

The motivations for the present research are as follows: i) to investigate the clusters found in the Mozambican social network of politicians and businessmen, and to identify social cliques and their relationships and interactions. As social networks are composed of citizens with different levels of power, it is useful to identify the groups present in the network; ii) to investigate the relationship between the social network and the covariates that may explain it, as this relationship enables one to obtain a clear view of the Mozambican social network, and; iii) to have a clear view of the degree of the presence of cronyist features found in Mozambique and their relation with the process of wealth accumulation by the elites. Despite the fact that some research has already been carried out on social capital (Donge 1992, Wahba and, Zenou 2005, Assaad 1997, Labonne and Chase 2011, Rohner 2011, Ligon and L Schechter 2012, Fafchamps and Vicente 2013), none of these authors adopted the SNA approach which has been used in this paper, and this is the first attempt to analyse the process of wealth accumulation in Africa using this methodology.

The remainder of the paper is organised as follows: in the next section, the contextual setting is presented; Section 3 examines the theoretical framework and the research hypotheses; in Section 4, the methodology is explained; Section 5 contains the data and results; and finally, our concluding remarks are made in Section 6.

2. HYPOTHESES AND METHODOLOGY

2.1. Hypotheses

The Mozambican social network allows us to formulate the following hypotheses:

Hypothesis 1 (Family and Friendship): The Mozambican social network is highly influenced by family relations and friendship. Most business partners have known each other since the struggle for independence and most are now high-ranking governmental

officials, working together in the executive. Recently the trend has been for young people to be integrated in the business network, whose connections are explained by other reasons rather than participation in the anti-colonial fight and are yet to be uncovered. These young people hold highly influential positions in the business world (an example being the young entrepreneur, Celso Corea, who is known in the corridors of power as the go-between for President Guebuza). The sons of the important cadres of Frelimo are also engaged in business, benefiting from being linked with their parents.

Hypothesis 2 (Military): The Mozambican social network is highly influenced by military people. After gaining independence in 1975, the country became embroiled in a long civil war between the Marxist regime of Frelimo and the allegedly Capitalist movement of Renamo², which lasted 16 years (1976–1992). As a result, tie formation in the Mozambican social network increases with military activity.

Hypothesis 3 (Business): In the Mozambican social network, the current president has strengthened its business interests. He leads the most prominent cluster that dominates power, influence and entrepreneurial initiatives. The process of the accumulation of wealth by the elites rooted in the Frelimo party is facilitated by the fluidity between the public and private spheres. This elite moved from amassing their wealth by revenue-based activities (Cramer, Johnston, and Oya 2009), to running profitable business, mainly in the service sector. Therefore, tie formation in the Mozambican social network increases with individual business activity.

Hypothesis 4 (Politics-Frelimo): The Mozambican social network is dominated by FRELIMO – Frente de Libertação de Moçambique. Despite the changes in the constitution in the 1990s, which officially abandoned Marxism-Leninism ideology and embraced market principals, as a result of a process instigated by the Frelimo Party in the mid-1980s, which was manifested by the government's conversations with the Bretton Woods institutions in 1984, the party positioned itself as the sole interlocutor for negotiation (Sumich 2011) and social mobility. This had huge implications in the business arena, as it blocked the chances for an emergent business counter-elite. Thus, tie formation in the Mozambican social network increases with Frelimo individuals.

Hypothesis 4 (Ethnicity): The social network in Mozambique is defined by ethnic relations. An ethnic divide exists in the politics of Mozambique, although this is still in a latent state (Chichava 2008). During the well-known crisis faced by Frelimo during the course of the independence struggle in the 1960s, people from the south of the country that took over the leadership of the movement and shaped the way that now makes up the three main regions of the country (Chichava 2008, Cahen 2000). The same pattern is found in the business sector where the south, which is dominated by the Ronga and the Changane, is the most prominent zone for big business sp.

² The civil war in Mozambique, as explained elsewhere in the text, began as a war of destabilization, supported by foreign regimes. During this period, Renamo had no specific political ideology or project.

Hypothesis 5 (Gender): The Mozambican social network is defined by gender (Sender, Oya, and Cramer 2006). Despite the fact that Mozambique is one of the African countries that has a growing number of women in the government, only a very small minority of females are involved in business, which means that the network is biased towards men. Therefore, tie formation in the Mozambican social network increases with individual gender.

2.2. Methodology

Social Network Analysis (SNA) studies the interaction of patterns among social entities (Wasserman 2008). Network visualisation is concerned with showing binary relations between entities. Adopting the terminology of graph theory, these entities are given the name of nodes or vertices. Relations between nodes may be considered ‘directed’ if they can be understood as flowing from one node to another, or they may be considered ‘non-directed’ if no such direction can be identified. Directed relations are referred to as arcs, and non-directed relations are referred to as edges (Scott, R. Baggio 2008).

3. GENERAL PRESENTATION OF THE INTERACTION IN MOZAMBIQUE BETWEEN POLITICS AND BUSINESS

Mozambique became independent from Portugal in 1975. In 1976, Renamo started a war of destabilisation, supported first by the Ian Smith regime in Rhodesia (present-day Zimbabwe), and afterwards by the apartheid regime in South Africa. The party in power, Frelimo, was beset by internal problems, and a full scale civil war developed in the 1980s (Cramer 2002). The country’s GDP started to grow after the introduction of the liberalisation programme sponsored by the World Bank (WB) and the International Monetary Fund (IMF) in 1987, and recently achieved an annual growth rate of 7%. However, the economy is heavily dependent on the mining sector, which is dominated by capital-intensive mega-projects that benefit from fiscal incentives, without any upstream or downstream linkages and with little impact on the economy as a whole (Castel-Branco 2011). As a result of this option for development, nearly 90% of the workforce earns their living in the informal sector, whilst the small formal sector is dominated by a few powerful economic groups and players, most of whom benefit from privileged links with the dominant political party - Frelimo (Cramer, C. Oya, and J. Sender 2008). Most businessmen in Mozambique are members of CTA- the Confederation of Economic Associations, which is an organisation that is clearly seen as having close ties with the ruling party. According to Pitcher (2012, 182), “rather than

constituting an autonomous sphere independent of the government, CTA and the government were interwoven. CTA's member associations in banking, tourism, commerce, and manufacturing contained powerful supporters of the party".

From 1987 onwards the economy has been managed in accordance with a market matrix, and the ongoing situation of nepotism has been tolerated, even by the Bretton Woods institution, with the excuse that this was necessary as a means to build a national capitalist elite (Hanlon 2004). The way in which the privatisation process was conducted can be ascribed to this logic, with the national bourgeoisie linked to Frelimo assuming the right to bypass legislation on behalf of private interests, rather than the collective one. Before moving on to explain the business and political networks and their cronyist features, it is worth looking back at the socialist period immediately after independence, which was when the current state of affairs began to be implemented by the Frelimo-led coalition. In 1977, the party held its 3rd Congress and declared itself to be Marxist-Leninist in orientation. One of the main implications of this decision was that the economy began to be managed through central planning in a socialist fashion. The second feature resulting from the congress was the implementation of a coercive modernisation project, based upon the structure of communal villages, commercial cooperatives and state farms. During this period, political parties were banned, and the private sector was either residual, or non-existent. The state was basically one and the same as the Frelimo party, and vice-versa.

In the one hand, Harrison (Harrison 2010) says that the expansion of Frelimo's control over the economy can only be explained as being a reaction to the crisis that beset the country immediately after independence. In 1978, 50% of all business was already under state control, and, by 1981, 65% of industrial production, 85% of the transport sector, and 90% of the construction industry were owned by the state. This suggests that Frelimo's principle aim was to promote the expansion of state control, in order to consolidate its position as the central elite in Mozambique's economy. The lack of economic control is regarded by this author to be the second motive that encouraged the party to expand its economic power through the state, rather than through the promotion of private interests, which were by then practically non-existent.

Although some of the literature speaks about the non-existence of a private sector in Mozambique, Pitcher (2003) argues that enterprises such as "Banco Standard Totta de Moçambique", "Companhia de Moçambique" (including "Entrepoto"), "João Ferreira dos Santos", and "Grupo Madal", were not nationalised, neither were they subject to state intervention, on account of "the government's lack of either the desire, or the capacity to extend its control to all enterprises". The author says that it was precisely "the existence of a residual private sector during the socialist period [which] had the effect of simultaneously saving and undermining the Frelimo government's plans for transformation. Without the support of the private sector, it is likely that the consequences of social engineering would have been even worse".

The 4th Congress in 1983 led to an incipient opening up of the market, but the decisive moment was the 5th Congress in 1989, which made it truly possible for members of the Frelimo cadre to enrich themselves. Thus, “when the congress authorised Frelimo members to participate in the private sector, this gave the party the power to reward its supporters by giving them state enterprises.” The party’s internal groups saw this privatisation process as an opportunity to enrich themselves. The elites therefore used their power to benefit from privatisation, and, through a process that Pitcher describes as ‘transformative preservation’, they started to build a support base among the private sector, which allowed them to maintain their political influence (2003, 807-808).

De Mira (2005) calls attention to the speed by which the politician changed their ideology from being communists, to private entrepreneurs, through the transformation of the administrative spirit of collectivism to one of individualist capitalism. He describes the fact that the names of members of the central committee (elected inside the Party) at the time of the 4th Congress also appear in 99 enterprises that were created between 1987 to 1997 and, indeed, the same pattern is found for the central committee that was elected during the 5th Congress, whereby their names appear in 112 enterprises. The names of the members of the central committee from the 6th Congress appeared in 103 enterprises, and those from the 7th Congress in 72 enterprises. Members of the Council of Ministers from 1987 to 1994 created a total of 97 enterprises, which gave birth to tendencies of political alliances of all sort. Members of the Council of Ministers from 1994 to 1999 were involved in 56 enterprises, as well as others related to the governmental sector.

Harrison (2003) argues that the stabilisation and structural adjustment programme legitimised the acquisitive spirit that had been so strongly condemned in the name of socialism. This led to a situation in which everyone, at all levels, sought to pillage public resources in order to accumulate personal wealth, or simply as a means to survive. As privatisation processes were frequently non-transparent, this made it possible for those who were politically well-connected to benefit personally from them. As an example, the author speaks of ‘inside knowledge’ about privatisations, suggesting that the political networks may have distorted prices, and withheld information, in order to favour certain individuals or interest groups. In such a context, top officials used their public position to gain an advantage in the evermore turbulent and expanding arena of private entrepreneurship.

Effectively, during the privatisation of state enterprises, and despite distributional conflicts, the discipline and experience shown by the ruling party, in a system of two-party stability, helped it to maintain its support. Patronage, corruption and a lack of accountability were some of the distinctive features of this strategy, including a plea made by the leadership for the loyalty of party members and attempts made to appease the rank and file through the distribution of material goods. In fact, the government used privatisation to strengthen the network of the ruling party. Frelimo took advantage of the process to build up its interests, by investing in the private sector (Pitcher 2012).

Pitcher (Ibid.) continues her reasoning by stating that domestic investors with close connections to Frelimo were either given, or bought enterprises, in areas ranging from tourism to finance, which meant that members of the party moved from politics into the business world, or, as in the case of the current president of Mozambique, they used their influence in the political arena to promote their expansion into the market economy. There is a long list of politically well-connected entrepreneurs who have enjoyed close links with the presidents, including former first ladies, former prime ministers, and members of the Army, etc. The centralised state control over privatisation ensured that the ruling party would have a substantial influence over the way in which enterprises were to be sold, and to whom. The government used its authority to favour the party's interests and also to ensure that enterprises were sold to loyal party members. Additional legislation was introduced to strengthen the state's presence, and to ensure favouritism for party members, even after the institutions viewed as being necessary for the implementation of a market economy had already been set up. Following the same line of reasoning, Harrison claims that the unstable liberalisation seen in Mozambique creates the sort of conditions that have turned corruption into a key feature of the democratic politics of the country, which has eroded the legitimacy of the state and the political elite.

On the other hand, Cramer (2001) argues that Mozambique is a good example of the multiplicity of objectives of a privatisation programme, which turns it into an "omnibus", with different objectives between the external agents such as the World Bank, and the internal ones, such as Frelimo or the government. The mainstream literature about privatisation assumes that there is a contrast between public and private sectors. The two sectors are affected by the same culture of decision making processes. There is no evidence that supports the idea that a private sector has a better performance than the public one. Bureaucrats in the public sector are not necessarily inefficient. Meanwhile, and converging with the conclusions of Pitcher (2012), the author admits that in Mozambique there are always ways for subverting or bypassing legislation, when one has the right connections. In Mozambique it is the public sector that is creating the private one. He adds the fact that African governments manipulated the objectives of the privatisation programmes as a way of perpetuating patronage systems. Evidences from Mozambique suggests that "there is truth in this view, although the reality is more nuanced, and does not neatly or always fit a cynical vision of corrupt and complete government manipulation just for personal patronage purposes. Even where there is quite straightforward party patronage, it may be best to view instances of transfers of public assets into private hands of public figures within a broader, historical perspective of class formation." (Cramer 2001)

In fact, Castel-Branco et al. (2001), reason that people from the business sector, as well as high ranking army officers, and state officials, all made pressure for privatization, as it was an opportunity to invest the wealth that they had accumulated during the war period through corruption and the extraction of a 'war tax'. These players benefitted from the privatization all along the process, which would not have occurred in

an industrial policy context which allows the state to gain through the generation of additional revenues from these new companies.

4. THEORETICAL BACKGROUND

The theoretical background of this paper is crony capitalism³. During the 1980's and 1990's, the concept was used as one of the explanatory variables for the Asian crisis (See, amongst others, Wei 2001, White 2004, Krueger and Yoo 2002, Corsetti 1999, Ip 2008). With regards to Africa, the lack of usage of the term is in line with both the negative and neopatrimonialism point of view. The work of Southall (2004) is a good illustration, as he says that there is a danger in creating black capitalists in South Africa, through Black Empowerment, as a lapse into Asian-style cronyism is likely to occur, which will propel class conflict to the centre of the political arena.

Nevertheless, a growing body of research tries to look at the question of cronyism in a less normative way. Chang (2000) is amongst the first to contest the linkage between financial crisis and crony capitalism. In the same perspective, and in order to avoid the term of corruption, Kang (2002) uses “money politics” to discuss development in the South Korea and Philippines. His work presents an interesting contribution whereby he deconstructs the idealistic perspective of development launched by orthodox scholars, adding a more nuanced and realistic picture about the interaction between politicians and businessmen to the debate. The author uses cronyism as a blanket term which encapsulates a set of related concepts. He argues that personal relations sometimes enhance efficiency. Cronyism can reduce transaction costs in contexts with weak legal, political and economic institutions, where information about market conditions and investments is lacking, property rights are insecure, and where players change rapidly. This is because players have deep and enduring contact with each other, and knowledge about each other, and are thus able to make nuanced judgments about each other's credibility and integrity (Kang 2003).

As will be explained in the subsequent paragraphs, these features are encapsulated in a more deeply structured process of wealth accumulation, in which the state, although less and less important as the vehicle for creating personal wealth, continues with to carry out a fundamental role of granting property rights security. In other words, these politicians and businessman are doing business, and are starting to engage in the productive sector, which leads to its expansion. This process is part of the explanation for

³ Is usually characterised as being composed by family and personal relations, bribery and corruption, patron-client relations, and collusion. In some cases, cronyism involves political factions, groups, or informal networks, whilst in others, it involves clans, families, or social groups.

the actual growth rates in some of these countries, especially those not well endowed with natural resources.

With regards to the question of crony capitalism in Africa, Taylor (2012) presents three paths for explaining Africa's crony-derived business: conventional, privatisation and indigenisation programmes. The conventional path to crony capitalism is related to the period of great proximity between cronies and political leadership, as well as state bureaucrats through family connections, or kinship, including protection between the restricted business elite and the state. This is characterised by widespread corruption and opacity. The second path, that of privatisation, whilst it provides an environment for opening up markets, it can also create opportunities for cronyism. Finally, indigenisation programmes, which were typically developed during the post-independence period, observed a rebirth in the 1990's – nowadays called *Africanisation* – as a mechanism to empower Africans through the private sector. The author argues that despite their origins, cronies can transform themselves from being mere appendages of the state, to being credible business players. They can move from transgression to stabilising and ultimately validating the market, and thereby initiate an alternative route to economic development and, paradoxically, to the restoration of institutions.

Following the same line of reasoning as Taylor, Handley (2008) refers that in some countries of Africa allocative decisions are made through informal practices, such as cronyism and ethnicity. Nevertheless, indigenous political and economic elites can move from parasitism to being promoters of development. One of the contributions of her work is related to the idea that the complete independence between economic and political players might not be the best condition for cultivating a developmental project. Moving to ethnicity, she refers that a strong dose of ethnic differentiation in the right place might be beneficial for economic policy-making outcomes. Thus, it is important to not only consider the number of ethno-linguistic groups, but also the ability of one group or coalition to dominate political power. South Africa and Mauritius are presented as evidence where ethnicity in the two countries served as a crucial political cleavage, separating out political and economic power, restricting access to patronage and permitting the emergence of a healthier, more robust strain of capitalism.

Consensus exists amongst scholars that the process of wealth accumulation through cronyism is not solely an Asian or African phenomenon, as it is also possible to find them in Central Asia (Lauelle 2012, Peyrouse 2012).

In the case of Mozambique, no research has been carried out using the concept of crony capitalism, neither the SNA framework. In our analysis, we concentrate on the business and political networks to describe the degree of the process of wealth accumulation, taking into account *ethnic groups*, the *military*, *political parties*, *business and political relations* and *gender*.

5. DATA AND RESULTS

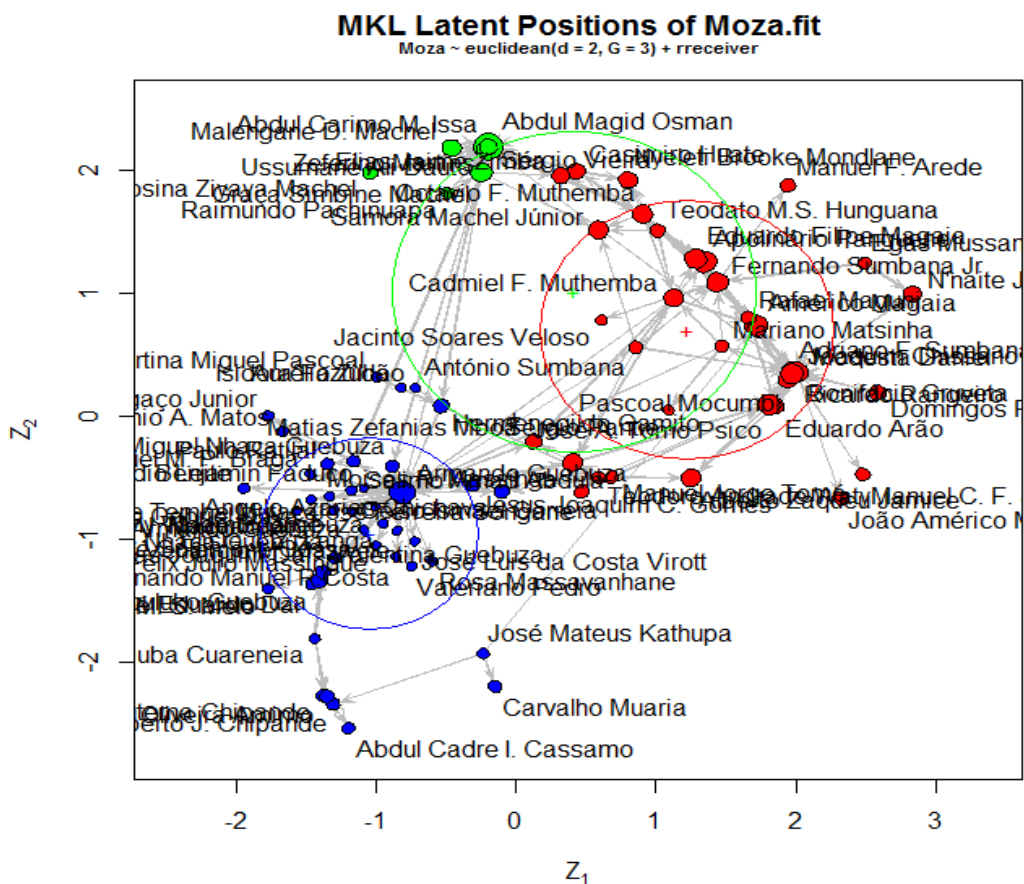
The data set provides qualitative information about the networks that exist between Mozambican politicians and economic agents, as described in Table 1 below. The data were obtained from the Maputo Centre for Public Integrity (website: <http://www.cip.org.mz/cipsrddb/index.asp>) and describe the relationship between individuals who are, by their very nature, directed between two people. In other words, in a network of k relations, there is a $k \times 2$ data matrix, in which every row represents an arc (if the network is directed) between two nodes which are defined by the names of the individuals. The use of edgelist, and arclists, often represents a more economical way of storing network data than an adjacency matrix. Table 1 presents the characteristics of the variables.

Table 1: Descriptive Statistics of the network

Relational variable	Description	Minimum	Maximum	Mean
Family	Family relationship	0	1	0.723
Military	Military relationship	0	1	0.111
Business	Business relationship	0	1	0.982
FRELIMO	FRELIMO party member	0	1	0.991
Ethnicity	Ronga	0	1	0.165
Ethnicity	Changane	0	1	0.082
Ethnicity	Maconde	0	1	0.019
Female	Female member	0	1	0.140

The analysis involves two sequential stages: firstly, the visualisation of the network, as a means of identifying each player's position in the network, using a sociogram, in which the data are represented as a list of nodes and links (Córten 2011); secondly, the sociality of the network metrics is regressed in the covariates, in order to explain the network. Figure 2 presents the sociogram of the Mozambican social network.

Figure 1: Sociogram of the Mozambican social network



An analysis of the sociogram reveals the following: firstly, it identifies specific nodes in the network by adding individual name labels to the plot using the label option; secondly, in terms of connectivity, the network represents a large group and the graph reveals three separate cliques: i) the first group at the bottom is composed of President Armando Guebuza and his supporters; ii) the second group on the right is composed of the former President Joaquim Chissano and his supporters; iii) the circle of the third group partly overlaps with the circle of the second group, and is composed of Graça Machel and her family. Therefore the three groups are composed of former and current presidents, signifying that political leadership is a determinant of business activity later on. The overlapping circles in Figure 1 show an alliance between the families of former presidents (Machel and Chisanno) in the business field. Therefore the network displays an accurate visualisation of political and economic power in Mozambique.

During a second stage of the presentation of results, the social network tie formation is regressed on covariates, using exponential random graph modelling (ERGM), (Hunter et al., 2008). Table 2 below presents this information.

Table 2: Network metrics (Endogenous variable: Tie Formation)

Explanatory Variables	Model 1	Model 2
Edges	-2.47690 (0.04027)	-5.37099 (0.08092)***
Family	–	0.39240 (0.06053)***
Military	0.12335 (0.08406)	0.07471 (0.17295)
Business	0.42712 (0.04027)***	0.08080 (0.00892)***
Politics-Frelimo	0.42712 (0.04027)***	1.24328 (0.08090)***
Ethnicity-Ronga	0.06345 (0.05093)***	0.03728 (0.01551)***
Ethnicity-Changane	0.42712 (0.04027)***	1.38929 (0.08092)***
Ethnicity-Maconde	0.34769 (0.16705)	0.06458 (0.27169)
Female	-0.04090 (0.07360)***	-0.01525 (0.05589)***
Degree 1	4.23692 (0.00000)	2.79700 (0.30082)***
DIC-Deviance	2474.3	3924.0
AIC	2850.4	1402.8
BIC	2906.7	1465.3

Standard error below the parameter. Those results marked with * are statistically significant at a 1% level**

Based on the DIC measure, models with a smaller DIC value should be preferred to models with a larger DIC value. Based on the AIC measure, the preferred model is the one with the smallest AIC value. Given any two estimated models, the model with the lowest BIC value is the one to be preferred. Based on these criteria, Model 2 is the preferred model. Tie formation is a measure defined by the network, calculating the total

number of nodes in the network. The scores recorded for *family members*, *military*, *business*, *politics*, *ethnicity* and *degree* are significant predictors of tie formation, as the standard error is far lower than the conventional cut off point of a 1% significance level. *Edges* and *female* are not predictors of tie formation. The coefficients are expressed as log-odds, in such a way that the log-odds of a family negatively affect the number of ties by 0.39240. The *military* and *ethnicity-Maconde* variables are not statistically significant, and therefore are not predictors of tie formation. Therefore, the general conclusion is that tie formation increases with *family*, *business*, *politics*, *ethnicity* and *degree*, and decreases with *edges* and *gender-female*. Degree is a measure of centrality in the network. Therefore, the higher the centrality in the network, the greater the tie formation, signifying that more organised networks are needed to increase tie formation. Based on this result, Hypothesis 1 (*Family*), is statistically significant and therefore accepted, but Hypothesis 2 (*Military*), is statistically insignificant, and therefore rejected. An explanation for this rejection is that the military are not important in the Mozambican context. Hypothesis 3 (*Politics-Frelimo*), is also statistically significant and is also accepted, one of the reasons for this result being the existence of a large number of Frelimo individuals in the sample, signifying that political activity is the road to fortune. Hypothesis 4 (*Ethnicity*), is statistically significant for the two main ethnic groups of the Ronga and the Changane, but not statistically significant for Maconde. This result is based on the representation of these ethnicities in the network. Hypothesis 5 (*Gender-female*), is statistically significant, but negative, which means that the Mozambican social network is male-oriented. Based on these relationships, a clear picture of Mozambican cronyism emerges from this research.

6. DISCUSSION AND CONCLUSION

6.1. Discussion

This paper presents a SNA – Social Network Analysis – of the Mozambican political and business elite, which firstly represents the network as clusters of three cliques present in the Mozambican context. Then an exponential random graph modelling (ERGM) (Hunter, Handcock, Butts, Goodreau and Morris 2008) is adopted to explain the covariates that predict tie formation in the Mozambican context. The results reveal that the scores for *family*, *business*, *politics* and *ethnicity* are statistically significant and positive predictors of tie formation, whilst *military*, *female* and *edges* are statistically significant and negative predictors. These results signify that the Mozambican social network is defined endogenously by *family*, *Frelimo*, and a relationship of *ethnicity*. Several reasons can be associated with this result, such as, for example, the continued

effect of the position of Frelimo. Having relatives who are members of Frelimo and also a relationship of ethnicity with Frelimo members is of paramount importance for business success in Mozambique.

The privatisation process enabled the elite connected to Frelimo and the state to engage in business activity, benefiting from the blurring frontiers between the public and private sectors. But this process restricted the possibilities of including other groups, other than Frelimo. Thus, the chances for an emergence of a counter-elite, such as Renamo or the Movimento Democrático de Moçambique (MDM), which could have generated a situation of “mutual hostages”, as proposed by Kang (2002), became virtually impossible. Furthermore, the expansion of entrepreneurship and the private sector has not resulted in a reduction of the disproportional number of mining enterprises.

The network between high party ranks and governmental officials which dominates business in the private sector seems to confirm the pattern of accumulation based on familiarity, friendship and ethnicity. On one hand, take, for instance, the cases of Tobias Joaquim Dai (the President’s brother-in-law who, during Guebuza’s first mandate as president, was the Minister of Defence until shortly after explosions occurred at the main military magazine), and Cadmiel Muthemba (who is the Minister of Public Housing), who are both linked to President Guebuza through *Águia - Empreendimentos e Participações, Limitada*, an enterprise which is linked, in turn, to Teodato Hunguana, who, in 2011, was appointed Chairman of the Board of Directors of the public company [*Telecomunicações de Moçambique*](#) (*Mozambique Telecom*) – a state-owned enterprise. The President is also connected to Mariano Matsinha, the former Minister of Security, as they were friends ever since the struggle for independence, and António Correia Fernandes Sumbana, who is one of the President’s contemporaries, who was imprisoned along with Guebuza by the PIDE/DGS secret police during the colonial period, and was later appointed Chief of Staff (Ministro da Casa Civil) in 2005.

In the other hand, the sons of the most prominent members of the political and economic elite are linked to one another, benefitting from the connections with their parents, family and politically well-positioned friends. For example, the sons of President Guebuza and Graça Machel are linked to ministers and other highly placed state officials, as can be seen in the case of Valentina Guebuza, who is linked to Aiuba Cuaraneia, the current Minister for Planning and Development; Samora Machel Júnior, the son of Graça Machel, who is linked to António Correia Sumbana, the Chief of Staff in the Presidential office, as well as to Octavio Muthemba, the former Minister for Industry and currently the manager of MAI – Massingir Agro-Industrial. These are just a few examples of how the majority of the members of the network are somehow linked to one another through business and politics. Some of these people have benefitted from corrupt practices along their path to a successful business activity. Hanlon (Hanlon 2002) mentions the Chissano family, and also Octavio Muthemba, as these were both involved in the Austral Bank scandal, with the latter having taken out loans during that period in excess of \$2 million, which have never been repaid.

This is just a small picture of what can be seen in the network, and, without a doubt, it shows how these connections might become dangerous, in the sense that unethical practices may be used to further personal interests in the business arena. However, recent evidence from the business and politics interactions in Mozambique reveals a move from revenue-seeking activities, to productive forms of capitalism (Hanlon and Mosse 2010).

Regarding the relationship between state, government and business entrepreneurs in Mozambique, Buur et al. (2012) raise an interesting question, which is worth considering. They argue that “it is not certain that state and ruling coalitions and elite players in Mozambique engage with business groups solely for economic reasons”. They suggest that the ‘incentives’ driving the productive sectors in Mozambique are political, rather than economic. But recent accounts on President Guebuza’s business circle points to a different interpretation, which suggest a process of wealth accumulation and business expansion through privileged access to profitable contracts and property rights protection by using the state.

Castel-Branco (2010), when analysing Foreign Direct Investment (FDI) and National Direct Investment (NDI), refers to the fact that national investors, particularly those who invest in big projects, can contract loans from the banks – which are registered as loans and not NDI – or else they invest with “political capital”, which increases their capacity to control the access to resources, to anticipate projects of infrastructures, and to facilitate the access to natural resources for external investors. The author aligns this phenomenon with the Marxist analysis of the so called primitive wealth accumulation, which consists of the control, restructuring and redistribution of resources and property, the restructuring of labour and the power relations involving the state and the class of new capitalists.

As far as ethnicity is concerned, the network reveals an obvious continuity of the pattern observed during, and after, the struggle for independence, in which the Frelimo Party dominated almost all of the important committees of the party and the state apparatus. The network is dominated by Changane and Ronga ethnic groups. This is consistent, and represents continuity within the dynamics of anti-colonial struggle (Cahen 2000, Chichava 2008), which in the time provoked the crisis described briefly in Hypothesis 4, which is related to ethnicity.

Cahen (2000) considers it to be an expression of the failure of unification and that it mirrored “the great asymmetry in the country’s elite nuclei”, which is related to the fact that, for historical reasons, “the group from Zambezi and the Northeast could not manage to integrate themselves genuinely into the new Frelimo movement, which was dominated, at all levels of its political cadre, by the new urban, modern, socially-bureaucratic elite of the far South.” After independence, the Frelimo project of creating a new man and a new ideology was expressed, among other means, by an anti-racist, anti-regionalist, anti-tribalist or anti-ethnic discourse. Buurs (2010) argues that, “while Frelimo was antiracist,

there was also criticism of *assimilated bureaucrats*, *Indian*⁴, and *White personnel*⁵, who, due to their access to education and their willingness to flirt with Marxism, came to play a prominent role in the Frelimo movement after independence.” The apparent contradiction found in this discourse is explained by Cahen (2000), when he argues that Frelimo’s anti-racism and anti-tribalism were linked to the hostility shown towards Mozambican society itself, this being a way of willing the party to create a European-style nation through authoritarian modernisation. This process benefited the social group located in Maputo, which was able to take control of the state. He adds that, “since they expressed themselves only through a national discourse, without ever publicly revealing their own identity, the denial of ethnicity classically served to disguise the strong ethnicity of southern groups, particularly those of the Shangaan⁶.”

This historical analysis of the Frelimo trajectory clearly shows a pattern of “path dependency”. In other words, what was happening in the political arena was then reproduced in the business world. The perpetuation of southern domination, even in the business sphere, might be, or might not be casual, but it certainly goes in the opposite direction of the idea that advocates the necessity of greater ethnic differentiation for positive outcomes of the political economy (Handley 2008).

The cluster around President Guebuza differs considerably from that around the ex-president, Joaquim Chissano, and Graça Machel, which can be seen as the node of intersection of the two main groups. Contrary to what happens in the case of Guebuza and his family and friends, Chissano appears at the same level as the others, and his network is ethnically diverse, showing, in relative terms, a greater inclusion in terms of the representativeness of all ethnic groups. On the other hand, Chissano does not have many business interests compared to President Guebuza, which can be regarded as the explanatory factor for his reduced visibility in the network. The position of Chissano can be seen in the opposite way, when considering the argument of Laruelle (2012), which states that a network can disappear if the leader loses their access to power. In this case, the absence of a vertical hierarchy in the network around Chissano may reflect the fact that he is no longer the centre of power.

This network is therefore constructing an initial capital base for the country, grounded on political activity. However, most of the enterprises held by the Frelimo elite do not operate in the manufacturing sector, which has a greater likelihood to initiate a sustainable path for economic development, and to create jobs and reduce imports. Many of these enterprises are in the services sector, which, when associated with the fact that economic activity is concentrated in large mega projects, explains the contradiction of there being a fast growth rate for GDP (around 8%), whilst poverty is still entrenched and not getting less. Whether there is a possibility to progress from service-based sector to activities that are capable of diversify the productive structure of the economy, only time

⁴ Indians.

⁵ White people.

⁶ Meaning Changana.

will show. But what is clear is the fact that business expansion in the service sector would be more fruitful if it was linked to serious investment in the agricultural sector and also the financing of medium-sized enterprises, all of which is integrated in an industrial policy.

The policy implications of these results can be derived from the clusters obtained, which present a picture of the Mozambican social network, identifying who is closest to whom, thus making it possible to clarify allegations of proximity to the President, and also explaining the enduring influence of former presidents. Furthermore, the social network is defined in terms of degree (proximity). There are certain aspects of the study which make it possible for us to propose some policy implications. Firstly, careful scrutiny is needed to clarify how this network between politicians and business personnel actually operates. A formal democracy providing clear information would be a way of concealing social ties that support the appropriation of public assets, and would therefore form a wealth-based value network. The *family members, military, business, politics and ethnicity* variables are significant predictors of tie formation. These variables establish the infrastructure of the network, since they give cohesion to a network which is made up of ethnically related family members, some of whom are politicians, while others come from the military. All of them engage in business activity, under the umbrella of the state. This means that the network splits Mozambican society into the rich – who are members of the network – and the rest, who are poor and do not belong to the network. Some rich people may also be involved who represent international business. The variable *female* is not a predictor of tie formation, which means that the network is male-oriented and therefore discriminates against women. The presence of a few women in the network is not sufficiently significant to make them statistically representative. Therefore, the policy implication in this case is that social networks are endogenously constructed in their functioning, and that careful scrutiny is required to clarify how this particular one operates; certain principles of governance are also required, in order that ethical values can be introduced to the activity of the network's different players. Therefore, support should be given to a style of governance that establishes clear institutional structures (North 1991), which would integrate and limited the process of wealth accumulation to a broader and more comprehensive development project, using the synergies provided by the fluidity of frontiers between public and private sectors to reward export-driven medium enterprises, which could possibility be granted knowledge acquired through the informality which shapes state-observant wealth accumulation through cronyism. Developing an effective institutional structure may take time, but once the elite and their cronies start to move from prevaricator to stabilisers of governance, then a feasible path for an inclusive economic development might be possible. Nevertheless, the rule of law and other principles of governance constitute powerful instruments that control and limit these cronyist practices, in order to avoid this process sliding backwards, and returning to its predatory forms. The President, as the main player in the network, could guarantee a balance, ensuring on the one hand, international donors who could enforce the adoption

of governance principles, and on the other hand its monitoring and implementation, as this paper provides a clear mapping of the Mozambican state.

How does this paper compare with other research studies that have used SNA? Firstly, it is related to the one produced by Gil-Mendieta and Schmidt (1996), who analysed the networks that exist between Mexican political figures. However, no direct comparisons can be made, as this present paper refers specifically to elite political and business networkers in Mozambique. Based on the representativeness of Mozambique in an African context, this paper seeks to draw the attention of researchers studying African matters to the importance of the social context in business, and ultimately to the world of economics.

What are the strengths and limitations of this paper? The strengths are as follows: i) it displays a network between politicians and business people in Mozambique for the first time, making it possible to check the accuracy of the network displayed by the names of those involved; ii) it presents clusters that enable us to identify clubs that exist within the network and also the relationship between them; iii) it describes a process of accumulation, grounded on cronyist practices, in the Mozambican context, using variables that were chosen in accordance with this specific form of wealth accumulation in Africa, and; iv) it proposes policy implications that are based on principles of governance, supported by effective institutional structures, by taking in to account what is happening in the field.

What are the limitations of this paper? The limitations are as follows: i) the uncertainty that exists about the structure of the Mozambican network described here – although this network is based on known relations – is not a complete and exhaustive network of Mozambican political-business relations, as these relations cannot be easily discerned, and; ii) the network contains a very large number of individuals, which makes it difficult to adequately display all the individuals in the sociogram. These limitations are not easy to overcome. More research is needed to confirm the present results.

6.2. Conclusion

The present analysis discussed the interaction of politicians and businessmen placed in the context of wealth accumulation through cronyism, using the SNA method. It represents a departure from the general negativist and normative approaches about these processes in Africa. We describe the problems which cronyist practices might be brought about, but we also highlight the potential of a wealth accumulation process that is integrated in the policies of the national framework for bolstering economic diversification.

This study confirms an earlier analysis which points to the existence of oligarchies and the dominance of the Frelimo party in the national political and economic scenarios. It adds as a contribution the fact that major business opportunities are aligned with the

ethnic dominance of the Changane and the Ronga, which continues the pattern observed in the politics of the country ever since the crisis of the party during the struggle for independence.

The network is dominated by President Armando Guebuza and his cronies, and the evidence in the field does not support the notion of investments made in the wider setting of a national and broadly developmental project. In fact, although productive, the engagement of these cronies in the business arena is a classic example of wealth accumulation just for personal enrichment.

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