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## Mozambique's elite: Finding its way in a globalized world and returning to old development models

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# **Mozambique's Elite – Finding its Way in a Globalized World and Returning to Old Development Models**

Joseph Hanlon,<sup>1</sup> and Marcelo Mosse<sup>2</sup>

September 2010

## **Abstract**

What makes elites developmental instead of predatory? We argue that Mozambique's elite was developmental at independence 35 years ago. With pressure and encouragement from international forces, it became predatory. It has now partly returned to its developmental roots and is trying to use 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. But Mozambique's elite has also returned to two other traditions – that development is done by the elite and by foreigners. There is little support for development of local SMEs and agricultural development has been left to foreign-owned plantations.

Keywords: Mozambique, elite, corruption, development, Guebuza, national capital

JEL classification: O55, P36, P46, P48

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## 1 Introduction

A decade of ‘savage capitalism’ and corruption effectively culminated with the rush hour assassination in 2000 of investigative journalist Carlos Cardoso and then the killing of the central bank’s head of banking supervision Antonio Macuacua (Siba-Siba) a year later. The son of President Joaquim Chissano was charged with ordering the killing of Cardoso<sup>1</sup> and linked by the media to the killing of Siba-Siba.<sup>2</sup> Joaquim Chissano nearly lost the 1999 election<sup>3</sup> and The Front for the Liberation of Mozambique (Frelimo) found that the vote against Chissano was largely due to complaints about corruption and what was seen by the voters as the lack of commitment to undertake anti-corruption measures. Under the constitution, Chissano could stand one more time for the presidency, but party members realized that his image was so tarnished that he would lose. So the party selected Armando Guebuza who went on to win the 2004 election with 64 per cent of the vote as its new leader. By the 1990s, Guebuza, a former Marxist political commissar of the army, had become one of Mozambique’s richest men. In this paper, we argue that Guebuza may be pursuing a new form of elite development capitalism – instead of using state rents purely for predation and consumption, some of these rents are now being directed to build a Mozambican industrial and commercial group. But we will argue also that this process is strongly shaped by Mozambique’s short history and by global pressures.

This paper is presented in six sections. The first outlines recent Mozambican history. The second section discusses Mozambique’s shift to capitalism and corruption. Section three considers the changing shape of Mozambique’s elite capitalism in the first decade of the twenty-first century. Section four goes on to discuss why this may be creating a base for a development model with some similarities to the Asian Tigers or Volkskapitalisme in apartheid South Africa. Fifth, we discuss governance and challenge donor thinking on patrimonialism and corruption. And finally, we raise a number of caveats and questions about whether the Frelimo elite is willing and able to follow the Asian model.

## 2 History and factors which shaped it

Every country has a specific history which shapes its development path. Three important 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 personalized (as with Robert Mugabe in neighbouring Zimbabwe), and

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<sup>1</sup> Mozambique’s best investigative journalist, Carlos Cardoso, was assassinated in 2000. Nyimpine Chissano was charged with organizing the killing, but died on 11 November 2007, before the case came to trial.

<sup>2</sup> Antonio Siba-Siba Macuacua, head of banking supervision at the Bank of Mozambique (central bank), was killed in 2001. The Nyimpine Chissano link is cited, for example, in *Savana*, Maputo, 7 September 2006.

<sup>3</sup> 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* (Maputo), various issues, notably 31: 29 December 2004.

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. A mark of Frelimo's unity is that Chissano remained with the party and campaigned for Guebuza in 2004, despite having been rejected as leader. 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. Responding to five decades of rapid change and international pressure while maintaining unity and a nationalist development agenda has shaped the Mozambican elite and its development strategy.

Second, Mozambique is a poor, small and peripheral state. Although it will be an important mineral-energy exporter, it lacks the oil wealth of Angola or Nigeria, which means it has not been hit by the 'resource curse' – there simply is not enough money for significant corruption.

Third, Mozambique's recent history has been shaped by international forces, including the cold war, the aid industry, and international development models ranging from state-led modernization to neo-liberalism.

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

Mozambique has gone through five distinct periods, each shaped by foreign intervention and by the attitudes of the elite (Hanlon 1991; Hanlon 1996; Hanlon and Smart 2008):

**Liberation war (1965-74):** Portugal refused to follow the British or French models of decolonization, and NATO backed Portugal's attempt to retain its colonies. Frelimo was Mozambique's 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. The movement then learned to hang together and has maintained a remarkable unity since. Samora Machel was elected president in 1970 and Frelimo began to make gains against the Portuguese colonists. 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 nationalized but industry was largely left alone. However many businesses were abandoned, 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, but within two years managed to turn around administrative and economic collapse: the economy was growing and there was a rapid expansion of health and education. Five years after independence, Frelimo remained immensely popular, both for ending colonial oppression and for the expansion of health and education.

Frelimo was a party of modernization, both socially with a promotion of women's rights and an attempt to end 'traditional' authority, and economically, President Machel claimed that Mozambique could win 'victory over underdevelopment' in just a decade, the 1980s. Increasingly influenced, and supported by, the Socialist East bloc, Frelimo adopted a socialist policy, with the state playing the leading role in a still mixed economy. Communal villages would modernize the countryside, giant industries and state farms would transform the economy. For this paper, attitude of that era becomes significant – the belief that a well intentioned and genuinely honest and hard-working elite could transfer Mozambique. Policy was top down, and there was little space for initiatives from below.

**War (1982-92):** Ronald Reagan took office as President of the United States in 1981 and immediately intensified the cold war. Proxy 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. In Mozambique an opposition guerrilla movement, Renamo,<sup>4</sup> was formed. 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 Machel<sup>5</sup> and invasions of two northern provinces. As the war raged, Mozambique introduced a World Bank structural adjustment programme, which included a large privatization 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 recognized the legitimacy of the government and the existing constitution, but ensured multi-party elections and made Renamo the only serious opposition party.

The war, with its breakdown of commerce and dependence on government for food and services encouraged the maintenance of the centralized control by Frelimo. Indeed, it can be argued that by the time the 10-year plan had been agreed in 1979, the party was already moving away from a totally centralized model, and that the war effectively prevented economic decentralization.

**Capitalism and the Washington Consensus (1993-2001):** The opposition movement 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. In the 1990s, the IMF eclipsed the World Bank in Mozambique as the major influence on economic policy. It imposed a 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 also capped the amount of aid Mozambique could receive. But with its turn to the West and capitalism, Mozambique had become a donor darling. In 1995,

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<sup>4</sup> UN figures show that at the end of the war in 1992, Renamo occupied 25 per cent of the land but controlled only 6 per cent of the population. Renamo became the official opposition party. More than 1 million people (7 per cent of the population) had died; the economy was devastated and damage exceeded US\$20 billion.

<sup>5</sup> 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.

donors protested the aid cap and not only was the IMF forced to lift it, but the World Bank again regained dominance over economic policy in Mozambique.

This was the era of ‘savage capitalism’ with the state forced to withdraw from the economy. There was widespread privatization – small firms went to members of the Frelimo elite and larger firms went to foreign companies – and rapidly growing corruption. 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 capitalism to an end.

History will perhaps see the 1990s as an era of a particularly bizarre cult of capitalism. Both the international community and Frelimo professed a belief that entrepreneurs would sprout up like weeds, fully formed and trained and ready to compete. Privatized businesses were handed to military and political leaders who assumed that their leadership experience would equip them to run businesses, with no training and no experience of competition and having to make a profit and repay loans. Indeed, many enthusiastically accepted the old cartoon image of capitalists having big cars and offices, doing no work, and living off the workers. Some domestic businesses succeeded, but there was a strong shift to foreign ownership and dominance of the economy.

**Productive elite capitalism (2002- ):** Even as it fell out of fashion elsewhere, donors in Mozambique retained their commitment to the neo-liberal economic policies. As recently as 2006, the IMF used the phrase ‘trickle down’ in a Mozambique document (IMF 2006).<sup>6</sup> Poverty reduction was largely left to the international community. Big foreign owned plantations dominated agricultural development. But quietly the Mozambican elite began to direct state resources into productive investment. Guebuza strengthened, broadened and decentralized the party, while retaining quite tight central control. A serious crackdown on some corruption began.

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

### 3 Capitalism and corruption

The late 1970s had been an era of exceptional integrity,<sup>7</sup> the leadership under Samora Machel was puritanical and corruption was harshly punished, while the enthusiasm for independence and building a new country created a collaborative spirit that militated against private enrichment (Lopes 2002).<sup>8</sup>

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<sup>6</sup> 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’.

<sup>7</sup> 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 publicized the embezzlement and suicide.

<sup>8</sup> 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.

Michel Moran (2000) argues that authoritarian states tend to limit criminal activity through excessive regulation which limits the opportunities for corruption. Corruption, misuse of state property, and commerce outside the tight state regulations were 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 increased illegal trading in rural areas. Even State farms 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 reduced 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. Within just a few years, petty corruption became institutionalized. People remembered the late 1970s, when no one asked for a bribe, and were angry, but understanding – they did not approve but realized that the nurse had to feed her family.

With war, corruption increased and a new form of capitalism arose. Although Mozambique was closely aligned with the socialist bloc and Frelimo professed to be a socialist party, its image of socialism was closer to a Nordic social democracy. The state played 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-privatization 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 the opposition movement, Renamo attacked small businesses in rural areas and towns.

Privatization resumed in the late 1980s and backed by the donors and World Bank and IMF, who were soon hailing the privatization of more than 1,000 businesses as a great success. In order to promote this success, donors colluded in a highly non-transparent privatization process. Indeed, the World Bank admitted that it pressed local banks to lend World Bank funds to members of the elite with newly privatized businesses, knowing the loans would not be repaid. Some donors also allowed the aid money to be given to these newly privatized businesses, with no expectation of repayment (Hanlon 2004). 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. Inevitably, many of these businesses collapsed.

Finally, the formal transition to multi-party democracy in 1994 was not accompanied by conflict of interest regulations or asset reporting and other transparency requirements. 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 article (Hanlon 2004), we argued that donors promoted corruption in Mozambique. In their rush to promote Mozambique as a free-market aid success, 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 forced<sup>9</sup> (Hanlon 2002) the privatization 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 privatization was better than state ownership.<sup>10</sup>

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 extracting a share. The situation deteriorated so much that many projects could not go ahead because the share for the goats made them unprofitable. David Stasavage (1999) notes that this was encouraged by a civil service organization 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 corrupt Frelimo elite were supported by donors and the international financial institutions, who assured them that by becoming personally rich, they would actually promote development.

This picture of ‘goatism’ and rapacious capitalism is not the only one, and Frelimo was always divided. An earlier paper (Hanlon 2002) argues 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.

But the divisions within the party widened. 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.

Anthropologist Jason Sumich links the Frelimo ideology to a narrative of modernization (Sumich 2008a, b). Portuguese fascism intentionally kept Mozambican and Portuguese peasants illiterate and poor; the revolutionaries came from a tiny elite who had been

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<sup>9</sup> Privatization was a ‘necessary condition’ of a World Bank agreement. If the condition was not met, the agreement would be automatically cancelled. Since all aid was conditional on having a World Bank agreement, that would have ended all aid to Mozambique, and people would have starved.

<sup>10</sup> Both banks were privatized to consortia containing members of the Frelimo elite, and the two banks failed after being looted of more than US\$400 million (often in the form of loans which were not repaid).

able to obtain at least a minimal education, and they saw one role of the revolution as modernizing Mozambique and pulling it into the twentieth century. In 1979 President Samora Machel launched a plan to 'overcome underdevelopment' in a decade. Thirty years later, President Armando Guebuza is calling for 'victory over absolute poverty'. Machel's model involved rapid industrialization, including a textile factory in each of the 10 provinces. Today there is more stress on electrification, computers and mobile telephones. Sumich points to the way the elite sees itself with a mission to modernize 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 modernization 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 highly 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 universities abroad. And the young tend to return to take up jobs in non-government organizations, government, or business – which also has the effect of perpetuating the elite dominance. However, the elite is not closed to newcomers. 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. 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 modernization narrative) but have no voice.

#### **4 Elite capital in the twenty first century**

The election of Armando Guebuza as head of Frelimo in June 2002, 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 decentralizing 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 centralized control over major decisions. The revitalized 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 the old guard, it was increasingly the party rather than individuals who controlled patronage.

In the 1990s, the nomenklatura used their state links for acquiring land 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 carrying out the work and doing it well.

There have also been two interesting experiments to support non-elite capitalism, which perhaps show a different mood. First, from the base, the message to Guebuza and Frelimo 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, ignore donors. In an unprecedented move, without consulting the donors, the new Guebuza government inserted a budget line to give US\$250,000 a year to each of 128 districts for local development and job creation, with decisions at district level. This reflected the old model that capitalists grow like weeds and do not need training. Many Mozambicans believe that they can be as good business people as more experienced South Africans or domestic Asian-origin traders, and all they need is money. This programme explicitly backs that belief. These are supposed to be loans, but very few are being repaid because inexperience means ideas cannot be turned into profitable businesses.

The second, much more successful, experiment was the transformation of the cashew industry. In 1995 at the height of the neo-liberal mania World Bank conditionally contributed to the destruction of the local cashew industry by enforcing free export of unprocessed nuts (Hanlon 2000). 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. Unlike the district local development grants, cashew development has been backed by substantial technical and business support. By 2006, 6,000 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.

Meanwhile, there is a transition to a new style of elite capitalism, although this has been neither smooth nor even. Guebuza is aggressively expanding businesses in which he has personal interest. But he is also attracting the brightest of the foreign trained young generation who work hard and want to move quickly, while marginalizing 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 linger on. Key members of the elite have built on bases created in the 1990s and expanded their interests under the party and state umbrella:<sup>11</sup>

The Guebuza family, for example, owns many Mozambican 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

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<sup>11</sup> Ownership data is published in *Boletim da Republica*. See also Mosse (2005).

Abdula, who is also head of the Mozambican business association,<sup>12</sup> which gives President Guebuza a direct role in all Mozambican business. Intelec also holds 5 per cent 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.<sup>13</sup> 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 in 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 Foundation<sup>14</sup> and group Whatana have made a range of development-linked investments, and have links with Petromoc, the state petroleum company. Whatana also holds 5 per cent 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 the US\$5 million Mo Ibrahim Prize for African Leadership which he won in 2007. In contrast to Guebuza and Machel, Chissano is involved in grander projects which rely much more on external money and expertise. TIKO in late 2008 bought a small troubled airline, Transairways. And the foundation is involved in an US\$8 billion oil refinery in Maputo, jointly with Petromoc. However, in early 2009 it became clear that money could not be found for the project.<sup>15</sup> Chissano has also failed to attract the younger and more competent generation to his businesses, which are increasingly accused of being poorly run.<sup>16</sup> The

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<sup>12</sup> CTA, Conferência das Associações Económicas.

<sup>13</sup> Presidente do Conselho de Administração da Vodacom Moçambique.

<sup>14</sup> Fundação para o Desenvolvimento da Comunidade

<sup>15</sup> *Indian Ocean Newsletter*, 25 February 2009.

<sup>16</sup> *Savana*, Maputo, 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

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.<sup>17</sup>

The Brazilian Companhia Vale do Rio Doce 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.<sup>18</sup>

Finally, playing a less active 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, illustrated in 2006 when a company part-owned by SPI was given the contract to install a non-invasive scanner in the port of Maputo; all containers going through the port had to pass through the scanner, and pay a fee of US\$20 to US\$100 per container (Hanlon and Smart 2008: 116).

## 5 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 ownership.<sup>19</sup> 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 organizing 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 per cent 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

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do a 'due diligence' [audit] on the small airplanes business they bought'.) See also, *O País*, Maputo, 17 April 2009 on poor management of Transairways.

<sup>17</sup> 'Até à criação de melhores condições de trabalho: Suspensão funcionamento da 'Golden Roses Fields', *Notícias*, Maputo, 3 November 2007.

<sup>18</sup> 'Show Chissano', *Savana*, 3 April 2009.

<sup>19</sup> 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 responsibility for the 'great white elephant' because income would never cover the payments on bonds taken out to pay for construction.

(51 per cent) and BPI (30 per cent).<sup>20</sup> Correia has quickly moved BCI into actively carrying out the government's development strategy. A repeated and bitter complaint is that the privatized banking system is concentrated in the big cities and has 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 specialize 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.<sup>21</sup> 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 Segecoa Moç, a Chinese construction company based in Mozambique.

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 US\$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'.<sup>22</sup> 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.

Another new and important player is Moçambique Capitais, set up by former Bank of Mozambique governor Prakash Ratilal. It has more than 220 individual Mozambican shareholders and a requirement that no one person can hold more than 10 per cent of shares. In a recent interview, Ratilal stressed that the company was still open to new investors 'but not to any rascal' (*'malandro'*). Investments will not be accepted from money laundering or other illicit activities, he said (Carmona 2010). Ratilal has gone into partnership with the billionaire Stanley Ho, who made his fortune in Macau gambling, to create Moza Banco and Moza Capital (51 per cent Moçambique Capitais,

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<sup>20</sup> CGD lent Insitec most of the money needed to buy the Mozambican share of the bank, according to Correia. *Savana*, 15 June 2007.

<sup>21</sup> *Savana*, 15 June 2007.

<sup>22</sup> Conseguir reconhecimento e presença internacional como empresa fundamental para o desenvolvimento da região da África Austral. Insitec (<http://www.itec.co.mz/>).

49 per cent Ho's Geocapital), which are prioritizing investment in agriculture, particularly bio-fuels, and trade with China; Moza Banco prides itself on having 100 per cent Mozambican staff.

Ratilal has been a long term proponent of the view that Mozambique needs a development bank, but he stresses that Moza Banco and Moza Capital are investment banks which must make a profit, and not development banks which should be providing both subsidized credit and a range of technical support to new small and medium businesses. State support for the private sector will be 'decisive', he argues, and the state must promote new businesses; 'the boom in Brazil did not just come from the private sector' but from promotion and support by government, the Brazilian development bank, and universities (Carmona 2010).

Finally, Ratilal declares: 'I believe that this region [southern Africa] is in a situation very similar to that which occurred in the 1970s and 1980s in the Far East, with the huge growth of Taiwan, Malaysia, South Korea, and Indonesia' (Carmona 2010). And the shift from unproductive to productive rent-seeking begins to look more like an attempt to emulate the path they followed as they promoted industrialization (Wade 1990), 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 (Kaplinsky 2008). This was combined with policies which forced local firms to become more efficient, innovative and competitive, and penalized 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 agricultural<sup>23</sup> and mineral revenues, as Frelimo hopes to do in Mozambique (Hanlon and Smart 2008: ch. 9), and because of its revolutionary history Mexico had the same family links between the private sector and state (Camp 1989). 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) subsidized services and inputs; (4) protection of production for domestic markets; (5) preference in state contracts; and (6) export incentives of up to 20 per cent. Although the programmes were successful, Richard 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 (Auty 1994).

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<sup>23</sup> 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 cent per year, which in turn helped to fund state investment in manufacturing (Cypher 1990).

Closer to home, in South Africa in the 1940s, Afrikaner industrialization 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 (O'Meara 1983). 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) Consensus (Lee et al. 2007). They write that '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'. The BeST Consensus combines assistance to exporters with temporary assistance to selected import-substituting production. They continue: '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 joint venture firms to grow and reinvest, they are given 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 including bright, young, well-educated, and, most importantly, competent, Mozambicans.

## **6 Patrimonialism and corruption**

Mobutu Sese Seko is often held up to exemplify the evil of corruption and patrimonialism. Kept in power by the West during the Cold War, he is estimated to have stolen US\$5 billion, decimated his country, and created the conditions for the ongoing wars in the now Democratic Republic of Congo. With the end of the Cold War, the West imposed the free market as the alternative to Mobutu. But it is dangerous to use a particular ogre as a basis of development theory.

Economist Ha-Joon Chang points out that Suharto in Indonesia, another corrupt Western-backed dictator, stole an amount equivalent to Mobutu – about five times the country's GDP when he took power (Chang 2007). 'Yet where Zaire's living standards *fell* by three times during Mobutu's rule, Indonesia's *rose* by more than three times during Suharto's rule'. In his book *Bad Samaritans*, his label for the rich countries and the IMF, World Bank and World Trade Organization, he argues that they are 'increasingly using corruption as an "explanation" for the failures of the neo-liberal policies that they have promoted over the past two and a half decades'. To be sure, Zaire under Mobutu was ruined by rampant corruption. But, he notes, when the United States, Britain and France developed in the eighteenth and nineteenth centuries, they were 'spectacularly corrupt'. In the twentieth century Italy, Japan, Korea, Taiwan and China



developed rapidly economically in parallel with ‘widespread and often massive’ corruption. Bribes are simply transfers of money, and the question is whether that money is then used productively. The difference between Zaire and Indonesia, Chang argues, is that money from Zaire was deposited in Swiss banks, while ‘in Indonesia, the money from corruption mostly stayed inside the country, creating jobs and incomes’. In Mozambique, as in Indonesia, the money largely stays within the country.

The broadening definition of ‘corruption’ is also an issue. At least four senses seem relevant here. One is blatant graft, theft, or *cabritismo*, when money is simply taken by bureaucrats and politicians; the near destruction of the banking system in the Chissano era shows the danger of this. Perhaps most commonly, ‘corruption’ is taken to mean bribery in which a decision is taken or contract awarded in exchange for an illegal fee; Nathaniel Leff argues that this is not always bad and can actually increase economic efficiency (Leff 2002). Heidenheimer and Johnston in their massive tome *Political Corruption* point to the issue of corrupt party funding in nearly all democracies (Heidenheimer and Johnston 2002), and in Mozambique at least part of the money from high level theft and bribes goes to the Frelimo party. A fourth and newer sense of corruption might be called ‘allocational’. In Mozambique in the late 1980s and early 1990s, with the support and encouragement of the international community, privatized companies were allocated to preferred individuals and groups. Now, contracts are allocated preferentially to domestic companies even if this violates rules, or to companies linked to Frelimo or to local elites, and we argue this can be positive and may be essential for development. Indeed, Chang argues that the ‘Bad Samaritans’ have totally distorted the meaning of the word ‘corruption’, turning it to mean actions which go against their policies.

Raphie Kaplinsky and Ha-Joon Chang (Chang 2002) both point to the problem of global political pressures against industrial policies designed to promote state-assisted 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 industrialization 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.<sup>24</sup> The independent weekly *Savana*<sup>25</sup> 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.

Mobutu became infamous not only for his kleptocracy, but also because he was seen to epitomize African ‘patrimonial’ rule. ‘Patrimonialism’ and ‘neo-patrimonialism’ have become linked to individual, personal rule and poor leadership, bad governance, and economic stagnation, but this is now being challenged. Pitcher, Moran and Johnston point out that when Weber first used the term, it ‘included notions of the reciprocity and voluntary compliance between rulers and the ruled (Pitcher et al. 2009). Those reciprocities enabled subjects to check the actions of the rulers’.

The Frelimo party has substantial power, which is built, in part, on patron-client relationships and a well organized structure closely integrated in the state apparatus. In this sense, Frelimo is similar to the political machines in cities in the United States in the late nineteenth and early twentieth century, which are sometimes described as patrimonial (Rudolph and Rudolph 1979). But there are two important and linked caveats. First, elections mean that citizens have a real check on Frelimo – in 1998 and 1999 voting in large numbers against Frelimo and with the opposition winning control of five cities. Second, and linked to that, is that the party is more important than any individual.

The replacement of Joaquim Chissano, after his poor showing in 1999, brings together all of these issues. First, the party responded to citizens and the strong statement by the voters. Second, although the president has substantial personal power, final authority rests with the party and not a person. Third, consideration of ‘corruption’ within the Frelimo elite is both nuanced and contested. The corruption associated with the Chissano post-war era was no longer seen as acceptable or productive. Armando Guebuza brings with him a new model, which is the subject of this paper. Finally, however, the circle is closed by the dominance, unity and resilience of the Frelimo party – Guebuza can marginalize and impose some checks on the more corrupt and predatory members of the elite, but Frelimo’s focus with unity meant that even the most grossly corrupt have to be kept within the party and there can be no investigations, even of the looting of the privatized banks.

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

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<sup>24</sup> *Indian Ocean Newsletter*, 2 May 2009.

<sup>25</sup> *Savana* 15 June 2007.

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?

## **7 Path dependence and unsatisfied conditions**

This model of elite developmental capitalism is new and untested in Mozambique. We write of a picture that is only emerging and our description is contested. But we wish to conclude with two further observations. The first is the importance of history and path dependence. The second is that there are certain conditions for the creation of dynamic national companies which are not yet being satisfied.

The early post-independence period of Mozambique was characterized by elite dominance of development and a foreign-dominated big-project model of rapid modernization. This has returned. There is still little state support for the creation and expansion of small and medium enterprises; although there is some improvement in the availability of money, there is still no sense of the need to think in terms of value chains, training, etc. In the late 1970s, the strategy was for the development of large, mechanized state farms, often with eastern European technology and technicians, and sometimes carrying out Portuguese colonial plans. Thirty years later, the same model – often with the same farms and same colonial plans – is back, but now with transnational companies investing in large plantations for sugar (for food and alcohol), jatropha (for biodiesel), rice, bananas and other crops. And as 30 years earlier, this is no support for small and medium Mozambican commercial farmers. So there is a real question as to whether Mozambican elite developmental capitalism can grow without the parallel development of a Mozambican small and medium sector.

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

The first is conditions under which resources are given. 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.

The second is the need for 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, Mathews 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.

The third is that 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 marginalized because they fell out with him. The intense competition between Guebuza and Chissano is personal, political and economic, and a number of Chissano allies have been marginalized.<sup>26</sup> 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 marginalized people do not leave Frelimo (Hanlon and Smart 2008: 176).

The fourth is that 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, Mathews 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 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 given 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 Mathews (Mathews 2007a, b) 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

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<sup>26</sup> There has also been a clear crackdown on the people publicly identified as most corrupt from the Chissano era, which can be seen both as a clean-up and as an attack on Chissano. Former Transport Minister Antonio Munguambe was sentenced to 20 years imprisonment for corruption. Others arrested include 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 much criticized 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. (Hanlon 1991; Hanlon 1996; Hanlon and Smart 2008; and *Mozambique* 129, 6 June 2008 <e-mail newsletter edited by Joseph Hanlon and posted on [www.tinyurl.com/mozamb](http://www.tinyurl.com/mozamb)> and *Mozambique Political Process Bulletin* 31, 29 December 2004.) The allegation is that the new Guebuza broom is sweeping out the corrupt and incompetent linked to Chissano, but not those close to the Guebuza family.

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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